GLOBAL OUTLOOK

STORMY WEATHER

FEBRUARY 2016

www.GlobalMarkets.bnpparibas.com

Please refer to important information found at the end of the report

BNP PARIBAS

The bank
for a changing
world

BNP PARIBAS

The bank for a changing world

Global outlook

Summary table 1: Economic and financial forecasts

GDP	Year					2015				2016			
(% y/y)	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
World (2)	3.4	3.4	3.1	3.0	3.3	3.1	3.0	3.2	3.1	2.9	3.1	3.1	3.2
US	1.5	2.4	2.4	1.8	1.5	2.9	2.7	2.1	1.8	2.1	1.7	1.6	1.8
Eurozone	-0.3	0.9	1.5	1.3	1.4	1.3	1.6	1.6	1.5	1.3	1.3	1.4	1.4
Japan	1.4	0.0	0.4	0.3	0.2	-1.0	0.7	1.7	0.5	-0.2	0.3	0.2	1.0
China	7.7	7.3	6.9	6.4	6.1	7.0	7.0	6.9	6.8	6.4	6.3	6.5	6.4

Industrial production	Year					2015				2016			
(% y/y)	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
US	1.9	3.7	1.3	0.1	1.9	3.4	1.5	1.2	-0.8	-0.7	0.2	-0.1	1.0
Eurozone	-0.7	0.8	1.3	0.4	0.9	1.4	1.2	1.7	1.1	-0.1	0.3	0.4	0.7
Japan	-0.8	2.1	-0.9	0.4	0.5	-2.1	-0.5	-0.4	-0.4	-1.5	0.0	1.4	1.5
China	9.7	8.3	6.1	5.5	5.0	6.4	6.3	5.9	5.9	5.4	5.2	5.6	5.5

Unemployment rate	Year					2015				2016			
(%)	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
US	7.4	6.2	5.3	4.8	5.0	5.5	5.3	5.1	5.0	4.8	4.7	4.8	4.8
Eurozone	12.0	11.6	10.9	10.2	10.0	11.2	11.0	10.7	10.5	10.3	10.2	10.1	10.1
Japan	4.0	3.6	3.4	3.1	2.9	3.5	3.3	3.4	3.2	3.2	3.2	3.1	3.0

CPI	Year					2015				2016			
(% y/y)	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
US	1.5	1.6	0.1	1.0	2.2	-0.1	0.0	0.1	0.5	0.9	0.6	0.9	1.5
Eurozone	1.4	0.4	0.0	0.0	1.1	-0.3	0.2	0.1	0.2	0.1	-0.2	-0.1	0.3
Japan	0.4	2.7	0.8	0.2	1.8	2.3	0.5	0.2	0.3	-0.1	-0.3	-0.1	0.5
China	2.6	2.0	1.4	1.5	1.7	1.2	1.4	1.7	1.5	1.8	1.5	1.0	1.8

	Year					2015				2016			
Interest rates (3)	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
US													
Fed funds rate (%)	0-0.25	0-0.25	0.25-0.50	0.25-0.50	0.25-0.50	0-0.25	0-0.25	0-0.25	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
3-month rate (%)	0.25	0.26	0.61	0.70	1.05	0.27	0.28	0.33	0.61	0.62	0.70	0.70	0.70
10-year rate (%)	3.03	2.17	2.27	1.50	1.75	1.92	2.35	2.04	2.27	1.62	1.75	1.65	1.50
Eurozone													
Refinancing rate	0.25	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60	0.02	-0.01	-0.04	-0.13	-0.40	-0.50	-0.60	-0.60
10-year rate (%) (4)	1.94	0.54	0.63	-0.20	-0.20	0.18	0.77	0.59	0.63	0.25	0.30	0.00	-0.20
Japan													
Overnight call rate	0.10	0.10	0.10	-0.30	-0.50	0.10	0.10	0.10	0.10	-0.10	-0.30	-0.30	-0.30
3-month rate (%)	0.22	0.18	0.17	-0.10	-0.25	0.17	0.17	0.17	0.17	0.10	0.00	-0.05	-0.10
10-year rate (%)	0.74	0.33	0.27	-0.10	-0.25	0.39	0.45	0.35	0.27	0.00	-0.10	-0.10	-0.10
China													
Official interest rate (%)	6.00	5.60	4.35	4.10	4.10	5.35	5.10	4.60	4.35	4.35	4.10	4.10	4.10

	Year					2015				2016			
FX rates (3)	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
EURUSD	1.38	1.21	1.09	1.14	1.05	1.07	1.12	1.12	1.09	1.14	1.16	1.15	1.14
USDJPY	105	120	120	115	124	120	122	120	120	110	108	110	115
USDRMB	6.05	6.21	6.49	6.78	6.65	6.28	6.20	6.36	6.49	6.55	6.47	6.57	6.78
EURJPY	145	145	131	131	130	129	136	134	131	125	125	127	131
EURGBP	0.83	0.78	0.74	0.72	0.68	0.72	0.71	0.74	0.74	0.77	0.77	0.74	0.72
GBPUSD	1.66	1.56	1.47	1.58	1.54	1.48	1.57	1.51	1.47	1.48	1.51	1.55	1.58

Current account	Year				
(% of GDP)	13	14	15 (1)	16 (1)	17 (1)
US	-2.2	-2.2	-2.6	-2.8	-2.9
Eurozone	1.9	2.4	3.0	2.6	2.5
Japan	0.8	0.5	3.3	3.6	3.3
China	1.5	2.1	2.8	3.1	2.2

Budget balance	Year				
(% of GDP)	13	14	15 (1)	16 (1)	17 (1)
US (5)	-4.1	-2.8	-2.5	-3.2	-3.3
Eurozone	-3.0	-2.6	-2.2	-2.0	-1.7
Japan	-7.2	-5.8	-4.6	-3.7	-3.2
China	-2.0	-2.1	-2.4	-3.1	-3.3

Footnotes: (1) forecast, (2) BNP Paribas estimates based on country weights in the IMF World Economic Outlook, October 2015, (3) end period, (4) Bund yield, (5) fiscal year; figures are y/y percentage changes unless otherwise indicated

Source: BNP Paribas, national statistics offices, central banks

Summary table 2: GDP forecasts (% y/y)[1]

				Forecasts			Change since last Global Outlook		
Country/region	**Weight**	**2013**	**2014**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
World	**100.0**	**3.4**	**3.4**	**3.1**	**3.0**	**3.3**	**0.0**	**-0.2**	**-0.3**
Advanced economies	**42.9**	**1.2**	**1.7**	**1.8**	**1.5**	**1.5**	**0.0**	**-0.2**	**-0.3**
US	15.9	1.5	2.4	2.4	1.8	1.5	**0.0**	**-0.2**	**-0.4**
Eurozone	12.5	-0.3	0.9	1.5	1.3	1.4	**0.0**	**-0.2**	**-0.4**
Germany	3.4	0.4	1.6	1.4	1.3	1.5	**0.0**	**-0.3**	**-0.5**
France	2.3	0.7	0.2	1.1	1.2	1.3	**-0.1**	**-0.2**	**-0.3**
Italy	1.9	-1.8	-0.4	0.6	1.0	0.9	**-0.2**	**-0.3**	**-0.3**
Spain	1.4	-1.7	1.4	3.2	2.6	2.1	**0.1**	**0.3**	**-0.6**
Japan	4.3	1.4	0.0	0.4	0.3	0.2	**-0.1**	**-0.3**	**-0.2**
UK	2.4	2.2	2.9	2.2	1.7	2.0	**-0.1**	**0.0**	**-0.1**
Canada	1.4	2.2	2.5	1.2	1.4	1.6	**0.1**	**-0.4**	**-0.1**
Other advanced economies	6.5	2.5	2.3	2.1	2.1	1.9	**0.0**	**-0.2**	**-0.5**
Advanced Asia ex-Japan	3.4	3.4	2.4	2.1	2.1	1.6	**0.1**	**-0.4**	**-0.9**
South Korea	1.6	2.9	3.3	2.6	2.4	2.4	**0.1**	**-0.3**	**0.0**
Emerging and developing economies	**57.1**	**5.1**	**4.7**	**4.1**	**4.1**	**4.6**	**0.1**	**-0.3**	**-0.4**
CEE & Russia	7.7	2.1	1.6	-0.3	0.7	1.9	**0.2**	**-0.4**	**-0.2**
Russia	3.1	1.3	0.6	-3.7	-1.8	0.6	**0.1**	**-1.1**	**-0.1**
Turkey	1.4	4.2	2.9	3.8	2.8	3.5	**1.0**	**0.8**	**-0.5**
Poland	0.9	1.2	3.4	3.6	3.0	2.5	**0.1**	**-0.1**	**-0.6**
Developing Asia	32.2	6.9	6.7	6.6	6.5	6.4	**0.0**	**0.0**	**-0.3**
China	17.2	7.7	7.3	6.9	6.4	6.1	**0.0**	**-0.1**	**-0.6**
India	7.1	6.3	7.0	7.3	7.9	8.1	**0.0**	**0.0**	**0.1**
Indonesia	2.5	5.6	5.0	4.8	4.9	5.0	**0.2**	**0.2**	**0.1**
Latin America ex. Venezuela	8.0	2.9	1.4	-0.2	-0.7	1.7	**-0.2**	**-0.7**	**-0.5**
Brazil	2.8	3.0	0.1	-3.8	-4.0	0.0	**-0.6**	**-1.0**	**-1.0**
Mexico	2.0	1.4	2.3	2.5	2.0	2.4	**0.1**	**-0.3**	**-0.4**

[1] BNP Paribas estimates based on weights using the PPP valuation of GDP in the IMF World Economic Outlook October 2015
Source: National statistics offices, BNP Paribas

Summary table 3: CPI inflation forecasts (% y/y)[1]

				Forecasts			Change since last Outlook		Global
Country/region	**Weight**	**2013**	**2014**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
World	**100.0**	**3.8**	**3.6**	**3.6**	**3.9**	**3.8**	**0.0**	**-0.5**	**-0.3**
Advanced economies	**42.9**	**1.4**	**1.3**	**0.3**	**0.6**	**1.7**	**0.0**	**-0.8**	**-0.3**
US	15.9	1.5	1.6	0.1	1.0	2.2	**0.0**	**-0.8**	**-0.1**
Eurozone	12.5	1.4	0.4	0.0	0.0	1.1	**0.0**	**-0.9**	**-0.4**
Germany	3.4	1.6	0.8	0.1	0.0	1.4	**-0.1**	**-1.3**	**-0.3**
France	2.3	1.0	0.6	0.1	0.2	1.0	**0.0**	**-0.8**	**-0.3**
Italy	1.9	1.3	0.2	0.1	0.1	0.9	**-0.1**	**-1.1**	**-0.4**
Spain	1.4	1.5	-0.2	-0.6	-0.7	1.0	**0.0**	**-1.2**	**-0.2**
Japan	4.3	0.4	2.7	0.8	0.2	1.8	**-0.1**	**-0.5**	**-0.7**
UK	2.4	2.6	1.5	0.0	0.4	1.9	**-0.1**	**-0.8**	**-0.2**
Canada	1.4	0.9	1.9	1.1	0.9	1.9	**0.0**	**-0.5**	**0.0**
Other advanced economies	6.5	1.5	1.2	0.7	1.2	1.3	**0.1**	**-0.2**	**0.0**
Advanced Asia ex-Japan	3.4	1.7	1.1	0.7	1.1	0.9	**0.2**	**-0.1**	**-0.1**
South Korea	1.6	1.3	1.3	0.7	0.9	1.1	**0.1**	**-0.2**	**0.0**
Emerging and developing economies	**57.1**	**5.7**	**5.3**	**6.0**	**6.4**	**5.4**	**-0.1**	**-0.2**	**-0.3**
CEE & Russia	7.7	5.2	6.1	10.6	6.9	6.3	**0.0**	**0.4**	**0.6**
Russia	3.1	6.8	7.8	15.6	9.1	7.2	**0.0**	**1.5**	**0.7**
Turkey	1.4	7.5	8.9	7.7	8.9	8.4	**0.0**	**0.7**	**1.0**
Poland	0.9	0.9	0.0	-0.9	-0.2	2.2	**-0.1**	**-1.8**	**0.3**
Developing Asia	32.2	4.7	3.6	2.6	2.8	2.8	**-0.1**	**-0.5**	**-0.7**
China	17.2	2.6	2.0	1.4	1.5	1.7	**-0.1**	**-0.7**	**-1.0**
India	7.1	9.9	6.6	4.9	5.8	5.2	**0.0**	**-0.1**	**-0.2**
Indonesia	2.5	6.4	6.4	6.4	4.3	4.0	**0.1**	**-0.3**	**-0.5**
Latin America ex. Venezuela	8.0	5.3	7.1	7.3	9.8	6.6	**0.1**	**0.4**	**-0.1**
Brazil	2.8	6.2	6.3	9.0	9.1	7.4	**0.1**	**0.6**	**0.9**
Mexico	2.0	3.8	4.0	2.7	2.9	3.0	**-0.1**	**-0.2**	**0.0**

[1] BNP Paribas aggregated estimates based on weights using the PPP valuation of GDP in the IMF World Economic Outlook October 2015
Source: National statistics offices, regional central banks, BNP Paribas

Global Outlook: Stormy weather

- We have revised our global growth forecasts down and expect the global economy to grow more slowly in 2016 than in 2015.
- Financial stress reflects a number of factors. Reducing it will require either a rebound in China's economy, which we think is unlikely until mid-2017, and/or a Fed pause, at least.
- The risks in our expected scenario will lock the Fed out of hiking in March and June; later in the year and into 2017, a softening economy will leave them becalmed.
- The ECB is expected to ease substantially further this year, including in March; while we expect the BOJ to cut by another 20bp in Q2 2016.
- China is also expected to ease and likely devalue the RMB again by the end of 2016.
- Emerging markets should remain troubled by weak growth, weak commodity prices and burdensome USD debt. Event risk in EM and DM credit could further harm sentiment.
- We think there is a 30% probability of a global recession. Whatever central bankers say, the market sees them as almost out of ammo, and any available ammo consists largely of blanks.
- With further action from the major central banks to ease policy (or no action from the Fed and BOE), govvies are likely to remain well supported, particularly if markets remain risk-adverse.
- The USD looks to have ended its reign as the world's strongest currency, as the likes of the EUR and JPY look to outperform; while the commodity bloc is expected to stay weak.

Global growth revised down … again

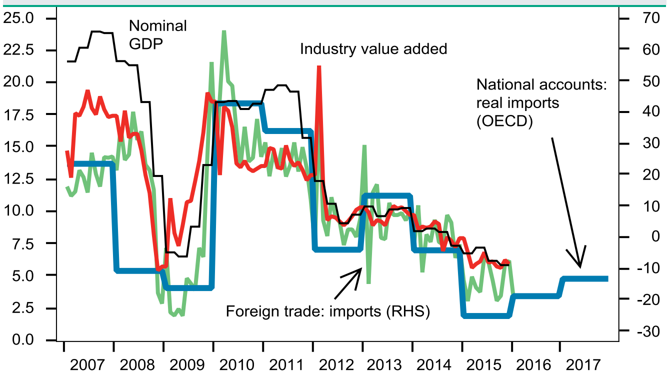
Volatility has again rattled financial markets at the beginning of 2016. Pessimism in the markets is growing, with equities down, oil prices hitting new lows, the RMB and other EM currencies having devalued against the USD, and credit markets showing signs of stress.

Whether the volatility is a consequence of lower global economic activity or a cause of it has yet to be determined. What is clear is that economic forecasts will have to be revised down. Ours is no exception – we now see global growth at 3.0% in 2016, slower than in 2015. This contrasts with the most recent IMF update, which sees growth picking up in 2016 to 3.4%, which we believe is a pipe dream. Global inflation forecasts have also been revised lower, largely a consequence of lower oil prices, but second-round effects are also likely to damp core inflation.

We see the reasons for the pressure as complex…

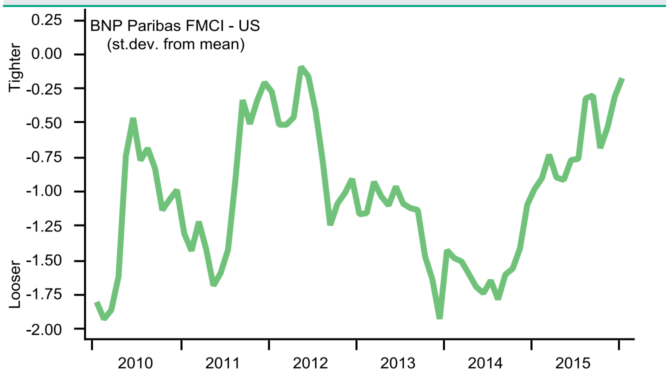
In terms of the underlying long-run factors, we have still not recovered from the Global Financial Crisis. Monetary policy in the US was too accommodative for too long, leading to distorted risk asset prices and a misallocation of resources. China also over-stoked debt after the GFC and relied on a growth model that led to a major excess capacity build-up. It was not alone. The BIS

Chart 1: China—GDP, IP and imports (% y/y)



Source: National Bureau of Statistics, OECD, Macrobond, BNP Paribas

Chart 2: US FMCI



Source: Macrobond, BNP Paribas

reports that, since 2009, the private credit/GDP ratio in emerging markets rose from around 75% to 125% on average. Corporate debt in emerging markets is a major issue. The BIS reports that this is not just a feature of commodity companies; in fact, they found that the leverage of companies in non-tradeable sectors had risen faster than in tradeables.

…with a slowdown in China's economic growth…

More proximate catalysts for slow growth and financial stress have been, first, a cyclical slowdown in China's economy, led by the property sector and magnified by a pro-cyclical fiscal tightening by local governments. Together with a policy of rebalancing the economy, away from the import-intensive manufacturing sector and towards services, this has led to a sharp slowdown in industrial demand. Nominal GDP growth was only 5.8% y/y in Q4 2015, a decrease of about 4.4pp compared with Q4 2013 (Chart 1).

…global monetary tightening…

The second has been a very-considerable global monetary tightening since 2014, led by the US Fed. Until recently, this was not manifest in higher fed funds rates, but the tightening represented by tapering the Fed's QE (and, even before that, by the 2013 taper tantrum) and the expectation of higher US rates. US financial and monetary conditions have tightened severely (Chart 2) and – vital from a global perspective – the USD has shot up (Chart 3).

…and a stronger USD all contributing…

A strong dollar has always resulted in lower commodity prices, and so it has proven this time. Moreover, dollar strength results in a decline in global FX reserves and, consequently, a contraction in base money. Countries seeing their currencies depreciate may experience inflationary shocks through import prices that lead them to hike rates (eg, Colombia) or not cut rates when domestic activity suggests they should (eg, Canada, Mexico and Russia). Furthermore, entities that have borrowed in USD obviously see the local currency equivalent soar as the dollar powers higher. The BIS found that a 10% change in the USD was associated with a 6% change in the quarterly growth rate of dollar-denominated cross-border lending outside the US. When the dollar rises in a serious way, serious deleveraging begins in USD-denominated debt outside the US. The BIS has reported that dollar borrowing of non-bank entities outside the US stopped increasing in Q3 2015 – for the first time since 2009.

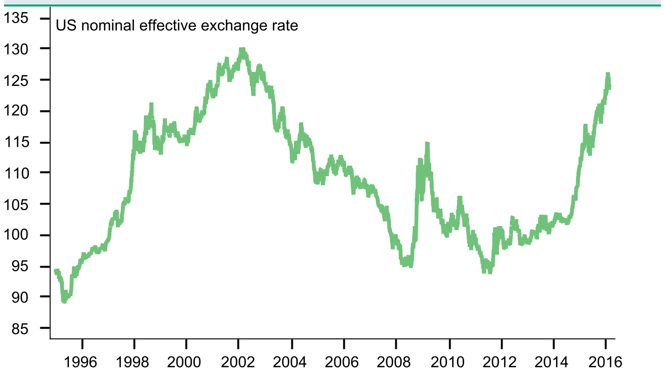
…as has the Fed's 25bp hike in December 2015

The Fed raising rates has also had an effect, as we can see. While one rate hike is insignificant, the Fed's first hike in almost 10 years is taking the US, and the world, through a portal into different monetary dimensions. Given the links between debt and leverage, even a small change in rates, especially if seen as the harbinger of a series, can cause major disturbances.

The strong USD has affected valuations…

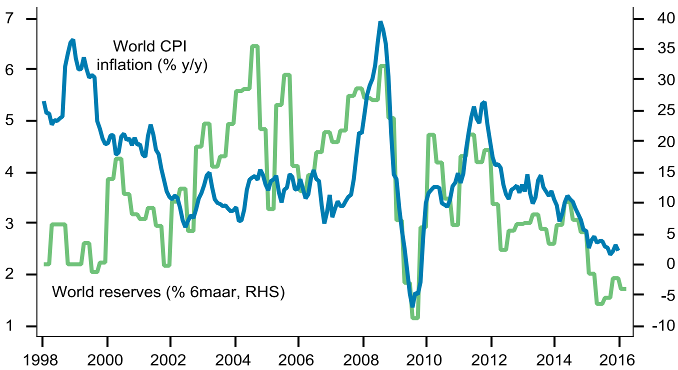
Therefore, the world has been suffering from an adverse demand shock (China) and an adverse monetary shock (global). Global investment has dropped (China, commodity exporters, manufacturers selling to China and commodity exporters); while savings ratios look as though they have been edging up in several countries. Meanwhile, cash flow pressures on oil producers may have encouraged them to pump more, not less, at lower prices, worsening disinflationary forces and rattling fragile expectations in markets. And the US has not been immune from the damage. Oil companies are suffering from the effects of low prices and increased credit spreads.

Chart 3: USD effective rate



Source: Federal Reserve, Macrobond, BNP Paribas

Chart 4: Global reserves and inflation



Source: Macrobond, BNP Paribas

The strong USD has affected valuations…

The US economy has been hurt by a strong dollar in another way. The composition of US assets and liabilities has shifted over the years, with more FDI on the outflow side, and debt being the counterpart on the liabilities account. External assets have become riskier and the positions have become more leveraged. As the dollar soars, the external value of assets abroad and profits earned from FDI drops and higher risk premia on external assets hurt too.

…with central banks fairly unable to respond

Against this background, the markets have taken the view that central banks have little ammunition with which to respond and, in some cases, are jumping to the conclusion that there is a real risk of a global recession, a financial crisis and widespread deflation.

That is not our central scenario, but it does look like a 30% chance to us. The main things that could reduce such chances are a stabilisation of Chinese growth, an end to Fed tightening and a turnaround in the USD.

We see a 30% probability of a global recession…

We do not see China stabilising its growth rate until mid-2017, and project official GDP to rise just 6.1% in 2017, compared with 6.4% this year. It is likely that the market will be nervous about another RMB devaluation of 3-5% against the greenback in 2016. While we expect a weaker RMB against the dollar by year end, there are obstacles to an adjustment at certain times of the year including the communist party meetings in March and the G20 in China in October.

...which can be lowered if China stabilises…

In November 2015, we wrote that the Fed was going to make a mistake in hiking when it did. It should have moved in 2014, when US financial conditions were much softer, before the USD started to soar and when China was more robust. Like one who dives off a cliff into the sea, it's best not to take the plunge when the tide has receded too much.

…the Fed stops tightening…

The Fed is now in a corner. Unemployment is down to 4.9% and still declining, wages have moved up and core inflation is about to rise due to base effects. Real wage growth in Q1 2016 and consumption should be good. Were it not for financial stress, a March hike would be a done deal. As things stand, the market has decided that a March hike has a less than a one-in-ten chance and that the Fed probably will not hike at all this year. We believe the Fed will try to squeeze in a rate hike when market conditions allow. Almost by definition, this means the underlying mood of uncertainty will continue while the Fed's bias to hike remains in place. When and if the Fed moves depends on the markets. Our basic view is that the current *level* of rates is too low, but also that Fed will be *opportunistic* in its rate moves.

…and the USD weakens

However, we doubt that hikes can be delivered anytime soon, whatever the Fed wants to do. The recent market volatility cannot be dismissed as a one-off, as August 2015 could. The more episodes of financial stress we have, the bigger will be the impact on the economy. There are markedly asymmetric risks from hiking and it proving to have been a mistake, as opposed to failing to hike and that being an error. Given the turmoil, we think the Fed will pass in March, but maintain its bias to hike because the economy is at full employment and wages are moving up.

Will they be able to re-engage in June? We see this as a one-in-three chance only. With markets to remain nervous about China and its currency, we see likely stress in low credit quality oil companies and we see risks of adverse shocks stemming from global deleveraging and continued risk aversion. We believe the Fed will pass in June also. If things continue to deteriorate in a way that threatens a US recession, rate cuts cannot be ruled out.

Later in the year, we see consumer incomes and spending slowing and net trade still weighing on GDP growth. With US growth of 1.8% expected this year and 1.5% in 2017, we have reduced our forecast of the fed funds rate at the end of 2017 from 2.0-2.25% to 25-50bp, the same as our forecast for the end of 2016.

Slower Fed hikes could lead to higher inflation

We have also lowered our US core inflation forecasts. While we still expect to see core PCE rising over our forecast horizon, it remains below 2%. The consequence of the Fed starting late, moving slowly and being able to reach only a very-limited peak is that inflation is eventually likely to overshoot. After years of undershooting and with low inflation expectations, we would not see this as a problem. The costs of avoiding it may be a recession and deflation.

We think the ECB will move again in March…

Global financial volatility has put upward pressure on the EUR and JPY, partly because it has made carry trades more risky and, therefore, less attractive. The ECB cut its deposit rate to -30bp in December 2015, but this disappointed market expectations. It looks very likely that it will move again in March, with a 20bp cut to -0.5% now our expectation (a note will follow on this shortly), accompanied by tiering, which will limit the adverse effects on the transmission mechanism from negative rates, which are a tax on banks. We also expect changes to the speed and size of its QE programme alongside other possible measures, including potential changes to composition of purchases and additional liquidity provision to banks.

…and more stimulus to come later in 2016

With the euro area economy a long way from potential, inflation expectations looking fragile and core inflation too low, the ECB cannot afford to take chances with the economy falling below potential. We have revised our growth forecast down this year to 1.3%, only just-above trend, and to 1.4% in 2017, in response to weaker global demand, a stronger euro and financial market turbulence. Slowing forces will come when inflation climbs due to base effects, we expect to about 1% in 2017; whereas nominal wage growth, unlike in the US, is not expected to pick up. With consumption likely to soften, a drag from net trade, which could result from slow global growth and a strong euro, needs to be avoided since investment might stumble. While headline inflation is likely to pick up, core inflation should remain virtually flat during our forecast horizon. Without further stimulus, the ECB will continue to miss its inflation target and inflation expectations will be at risk of de-anchoring to the downside.

We have revised up our EURUSD 2016 forecast

We have revised up our EURUSD forecast. The revision in the market's expectations of Fed rate hikes is one factor why we see the short-run trajectory of EURUSD to be for EUR strength, not weakness. We target EURUSD at 1.14 at the end of 2016 and 1.05 at the end of 2017.

We see BoJ cutting rates again before mid-2016…

Seeing its currency appreciate against the greenback, the RMB and other emerging market currencies, the Bank of Japan cut its deposit rate from 10bp to -10bp at the end of January. The benefit stemming from a weaker JPY was short-lived. With the economy contracting in Q4 2015 and with a consumption tax hike slated for FY 2017, we envisage another cut, probably another 20bp, from the BOJ before mid-year.

…but with little benefit to the economy

We do not see that the benefit to the economy will be significant and we forecast growth in Japan of only 0.3% in 2016, followed by 0.2% in 2017. While the consumption tax hike will be offset in its first year by a supplementary boost to fiscal spending, the risk is that the economy sees more downside in 2017 than we are forecasting. We foresee core inflation (excluding the effect of the sales tax increases) in Japan to rise from 0.0% in 2015, to 0.2% in 2016, and to 1.1% in 2017 (or 0.5% in 2015, 0.2% in 2016, 1.8% in 2017, including the tax). The yen is expected to depreciate from here and reach 115 by the end of 2016 and 124 by the end of 2017.

We think BoE is on hold until early 2017

Outside the US, China, the Eurozone and Japan, there are a myriad of uncertainties. The UK will likely hold its referendum on continued EU membership in 2016, maybe as soon as June. We think the electorate will stick with what they know rather than opt for economic uncertainty, largely relating to any future trade deal with the EU if the UK were to exit. Nonetheless, immigration is a key issue and how the immigration flow into Europe will play out in the run-up to the referendum is uncertain. Moreover, the polls were not reliable in the general election. With referendum uncertainty adding to global economic uncertainty, and likely to damp activity, we do not expect the BoE to hike rates until February 2017, and then very cautiously indeed, with the added expectation of the Fed on hold and ECB rates heavily in negative territory. As in the US, the labour market will be key and current low spot inflation seems to be subduing wages, giving the BoE the luxury of time to wait and see.

Oil prices should increase in 2016, in our view

Our view on oil prices is that they will rise over the bulk of 2016, in line with the forwards. The downside risk is less demand than we expect and a shortage of onshore storage. We do not expect flow equilibrium in the market until late in the year, so episodic declines in prices may occur in spite of the expected upward trend. The upside risk is political instability in some of the producing countries, as living standards are expected to fall to reflect the reduction in the real value of oil revenues.

Commodity-dependent countries are at risk

Many other emerging markets will be challenged by weak commodity prices, weak demand from China and burdensome USD-denominated debts. Deleveraging is under way and corporate spending is being cut. Meanwhile, higher inflation due to softer exchange rates is eroding the purchasing power of consumers. Fiscal positions are deteriorating as activity slows, especially where tax revenues are linked to commodity prices. Brazil's travails look a long way from over and we continue to be below consensus on growth and above consensus on inflation. We think political progress is needed to inject stability into the markets and economic dynamics, although the collapse in activity and the associated improvement in the current account offer a glimmer of hope.

Global bond yields have largely been revised lower

Low global inflation, weak growth and easing or less-hawkish-than-expected central banks are a clear concoction for low bond yields. We have revised down our bond forecasts substantially, largely in response to a ramping down of our fed funds forecast at the end of 2017. The lower peak makes the chances of returning to zero rates, or even seeing a negative deposit rate, a serious possibility and the bond markets will have to price in that risk going forward. In the US, we expect the 10y UST, currently 1.79%, to end 2016 at 1.5%, and edging up to 1.75% at the end of 2017. In the Eurozone, we expect the current 0.27% yield on the 10y benchmark to finish December 2016 at -0.2%, with -0.2% also projected for the end of 2017. In Japan, the current 10y yield is projected to move from 0.03% now to -0.1% at the end of 2016 and -0.25% at the end of 2017.

This is our central forecast, and there are considerable risks to it, mostly skewed to the downside. We will explore a possible adverse risk case in a forthcoming desknote.

Table 3: BNP Paribas end-period interest-rate forecasts

%	Spot	Q2 16	Q3 16	Q4 16	Q4 17
US					
Fed funds	0.25-0.5	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
2-year	0.73	0.75	0.75	0.75	1.15
10-year	1.79	1.75	1.65	1.50	1.75
Eurozone					
Refi	0.05	0.05	0.05	0.05	0.05
2-year*	-0.51	-0.70	-0.70	-0.70	-0.70
10-year*	0.27	0.30	0.00	-0.20	-0.20
Spreads to Germany					
France	0.37	0.30	0.30	0.30	0.30
Italy	1.33	1.15	1.25	1.15	1.00
Spain	1.45	1.25	1.35	1.25	1.00
Japan					
ODR	0.30	0.30	0.30	0.30	0.30
Call rate	-0.10	-0.30	-0.30	-0.30	-0.50
2-year	-0.17	-0.40	-0.40	-0.40	-0.60
10-year	0.03	-0.10	-0.10	-0.10	-0.25

**German benchmark; spot rates as of 16 February 2016*
Source: BNP Paribas (Market Economics, Interest Rate Strategy)

Table 4: BNP Paribas end-period FX forecasts

	Spot	Q2 16	Q3 16	Q4 16	Q4 17
EURUSD	1.12	1.16	1.15	1.14	1.05
EURJPY	128	125	127	131	130
EURGBP	0.77	0.77	0.74	0.72	0.68
GBPUSD	1.45	1.51	1.55	1.58	1.54
USDJPY	114	108	110	115	124
USDRMB	6.51	6.47	6.57	6.78	6.65

Spot rates as of 16 February 2016
Source: BNP Paribas (FX Strategy)

US: Looking for basecamp

Slower growth

Impressive job creation, solid wage gains and low inflation have led to gains in real income that have powered US output in the face of slowing business investment and weak exports. As growth in real income fades, inflation picks up and employment slows, output should follow.

Slow pickup in inflation

Inflation looks poised to rise, albeit slowly, throughout our forecast period, with prices helped by faster wage growth and a stabilisation in energy prices. In our view, it will be the inflation outlook that could challenge the Fed in late 2016.

Fed on 'perma-hold'

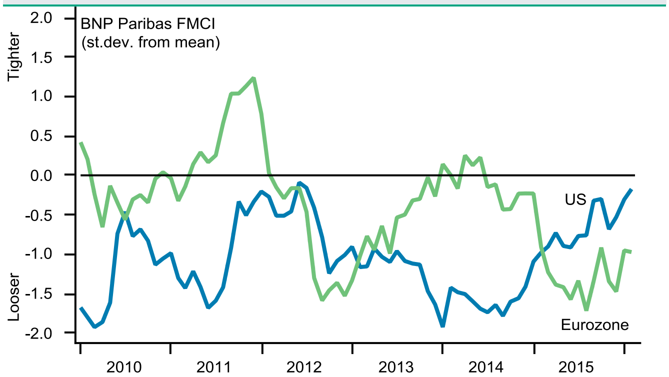
The FOMC seems to have a bias to hike, but financial conditions have tightened significantly and are likely to keep the Fed on hold for the foreseeable future. We have recently revised our call for the Fed, with no further rate hikes expected in 2016 or 2017.

Where we are different

We are well below consensus for both growth and inflation. The risks to our growth forecast are probably to the downside, considering the risk of recession, while the risk to inflation is probably to the upside, given the recent acceleration in wages.

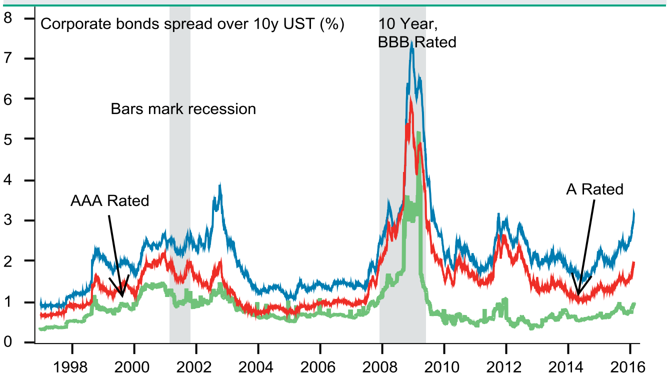
We think there is a greater chance that the Fed will get locked out of raising rates in both 2016 and 2017 which should keep rates much lower and the USD much weaker than other market economists currently expect.

Chart 1: Financial conditions have tightened significantly



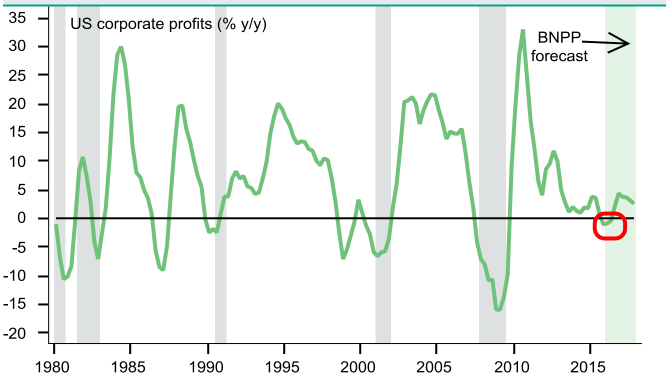
Source: BLS, Macrobond, BNP Paribas

Chart 2: Credit spreads have widened considerably



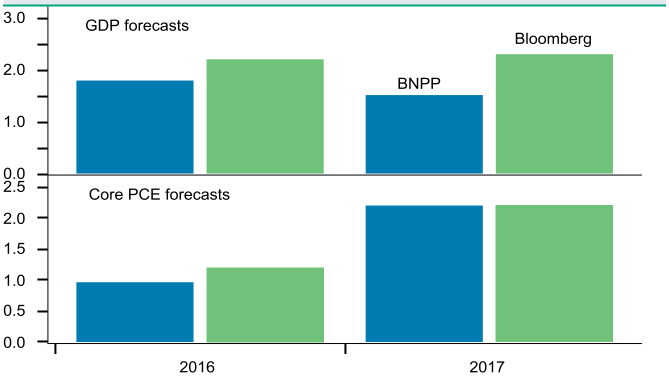
Source: Bloomberg, Macrobond, BNP Paribas

Chart 3: Corporate profits



Source: BEA, Macrobond, BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: BEA, Macrobond, BNP Paribas

US: Economic and financial forecasts

	Year					2015				2016			
	13	14	15(1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1(1)	Q2(1)	Q3(1)	Q4(1)
Components of growth													
% q/q saar													
GDP (annuals are Q4/Q4)	2.5	1.8	1.8	1.8	1.5	0.6	3.9	2.0	0.7	2.0	2.1	1.6	1.5
Domestic demand ex stocks	1.7	3.1	2.5	2.3	2.3	1.7	3.7	3.0	1.6	2.5	2.5	2.3	1.9
Private consumption	1.7	2.7	3.1	2.6	2.0	1.8	3.6	3.0	2.2	2.9	2.4	2.3	1.8
Public consumption	-2.9	-0.6	0.8	1.1	1.0	-0.1	2.6	1.8	0.7	0.4	1.2	1.2	1.2
Residential investment	9.5	1.8	8.7	7.6	5.2	10.1	9.3	8.2	8.1	8.0	8.0	5.0	5.0
Business fixed investment	3.0	6.2	2.9	1.2	1.9	1.6	4.1	2.6	-1.8	0.7	2.3	2.0	1.3
Change in private inventory (growth cont.)	0.5	-0.1	-0.1	0.1	0.0	0.9	0.0	-0.7	-0.5	0.3	0.1	-0.2	0.1
Net exports (growth cont.)	0.2	-0.2	-0.3	-0.5	-0.5	-1.9	0.2	-0.3	-0.5	-0.8	-0.5	-0.4	-0.5
Exports	2.8	3.4	1.1	0.1	1.9	-6.0	5.1	0.7	-2.5	-2.0	2.0	1.5	2.0
Imports	1.1	3.8	5.0	3.2	4.3	7.1	3.0	2.3	1.1	3.5	4.5	4.0	4.5
GDP (% y/y)	1.5	2.4	2.4	1.8	1.5	2.9	2.7	2.1	1.8	2.1	1.7	1.6	1.8
Savings ratio (%)	4.8	4.8	5.2	5.7	5.5	5.2	5.0	5.2	5.4	5.9	5.8	5.6	5.5
Industrial production (% y/y)	1.9	3.7	1.3	0.1	1.9	3.4	1.5	1.2	-0.8	-0.7	0.2	-0.1	1.0

	Year					2015				2016			
	13	14	15(1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1(1)	Q2(1)	Q3(1)	Q4(1)
Inflation & labour													
CPI	1.5	1.6	0.1	1.0	2.2	-0.1	0.0	0.1	0.5	0.9	0.6	0.9	1.5
CPI (ex food and energy)	1.8	1.7	1.8	2.1	2.1	1.7	1.8	1.8	2.0	2.1	2.0	2.1	2.1
PCE deflator	1.4	1.4	0.3	1.0	1.9	0.2	0.3	0.3	0.4	0.8	0.8	0.9	1.4
Core PCE deflator	1.5	1.5	1.3	1.6	1.8	1.3	1.3	1.3	1.4	1.5	1.5	1.6	1.7
Producer prices	1.4	1.6	-0.9	0.8	2.5	-0.5	-0.8	-0.9	-1.3	-0.2	0.5	0.9	1.9
Monthly wages	1.9	2.1	2.1	2.5	3.0	2.6	2.0	1.9	2.0	1.9	2.5	2.6	2.8
Employment (avg monthly change)	193	251	228	157	128	190	251	192	279	184	165	145	135
Employment	1.7	2.2	1.9	1.3	1.1	2.2	2.1	2.0	2.0	1.9	1.8	1.6	1.4
Unemployment rate (%)	7.4	6.2	5.3	4.8	5.0	5.5	5.3	5.1	5.0	4.8	4.7	4.8	4.8

	Year					2015				2016			
	13	14	15(1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1(1)	Q2(1)	Q3(1)	Q4(1)
External trade													
Trade balance (USD bn, sa)	-478	-508	-532	-568	-620	-134	-133	-134	-130	-135	-143	-144	-146
Current account (USD bn, sa)	-377	-390	-463	-521	-664	-118	-111	-124	-110	-122	-123	-135	-142
Current account (% of GDP)	-2.2	-2.2	-2.6	-2.8	-2.9	-2.3	-2.4	-2.5	-2.6	-2.5	-2.6	-2.6	-2.8

	Year					2015				2016			
	13	14	15(1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1(1)	Q2(1)	Q3(1)	Q4(1)
Financial variables													
Money supply	6.7	6.2	5.9	5.6	5.5	6.2	5.8	5.7	5.8	5.8	5.7	5.6	5.5
Fed. govt. budget (USD bn)(2)	-680	-483	-439	-596	-634	-263	123	-123	-216	-320	98	-152	-202
Fed. govt. budget (% of GDP)(2)	-4.1	-2.8	-2.5	-3.2	-3.3	-2.9	-2.4	-2.4	-2.6	-3.0	-3.1	-3.2	-3.1
Fed. govt. primary budget (% of GDP)(2)	-2.8	-1.5	-1.2	-1.8	-1.7	-1.7	-1.2	-1.2	-1.4	-1.6	-1.7	-1.8	-1.6
Gross fed. govt. debt (% of GDP)(3)	70.2	71.9	71.6	72.0	72.6	74.2	73.0	72.7	75.7	77.2	75.9	75.9	76.3

	Year					2015				2016			
	13	14	15(1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1(1)	Q2(1)	Q3(1)	Q4(1)
Interest & FX rates(3)													
Fed funds rate (%)	0-0.25	0-0.25	0.25-0.50	0.25-0.50	0.25-0.50	0-0.25	0-0.25	0-0.25	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
3-month (%)	0.25	0.26	0.61	0.70	1.05	0.27	0.28	0.33	0.61	0.62	0.70	0.70	0.70
2-year rate (%)	0.38	0.66	1.05	0.75	1.15	0.56	0.64	0.63	1.05	0.63	0.75	0.75	0.75
5-year rate (%)	1.74	1.65	1.76	1.10	1.45	1.37	1.65	1.36	1.76	1.09	1.20	1.15	1.10
10-year rate (%)	3.03	2.17	2.27	1.50	1.75	1.92	2.35	2.04	2.27	1.62	1.75	1.65	1.50
EURUSD	1.38	1.21	1.09	1.14	1.05	1.07	1.12	1.12	1.09	1.14	1.16	1.15	1.14
USDJPY	105	120	120	115	124	120	122	120	120	110	108	110	115

Footnotes: (1) Forecast, (2) fiscal year, (3) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BEA, BLS, Federal Reserve, US Treasury, Bloomberg, BNP Paribas forecasts

Eurozone: Crosswinds

Resilient growth

While consumer demand should remain supported by low oil prices and fiscal expansion, global headwinds and a stronger EUR will weigh on exports and investment. We have revised down our GDP growth forecasts by 0.3pp for 2016 and 0.4pp for 2017.

Low inflation

With the output gap hardly closing and low oil prices and a stronger currency weighing on goods prices, we expect core inflation to remain broadly flat and headline inflation to hover around zero this year, the same level as in 2015.

More in store from ECB

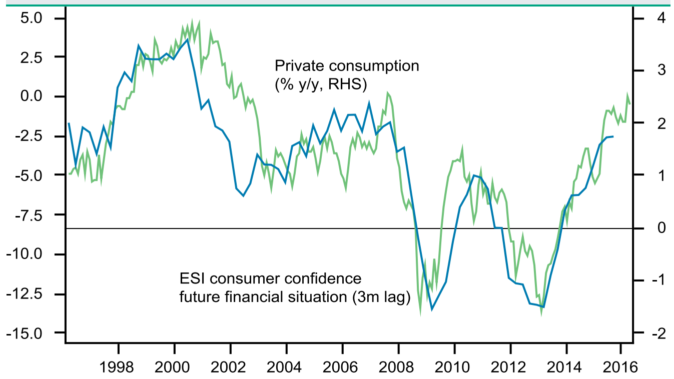
The first- and second-round effects of low oil prices on inflation point to ECB easing in March (a lower deposit rate and more asset purchases at least), in tandem with downward revisions to staff projections. Further easing is likely beyond March due to persistent low inflation.

Where we are different

Our inflation forecasts are below the consensus both for this year and next. In our view, the risk highlighted by the ECB of inflation expectations becoming unanchored is significant. ECB policy responses are likely, but the perceived effectiveness of unconventional measures is diminishing.

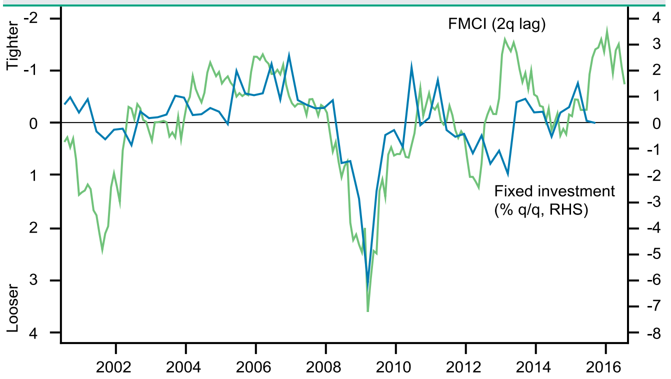
Our growth forecasts are already below consensus, but the risk is to the downside. A key judgement underlying the numbers is that consumers will spend the income gained from lower oil prices; raised concerns about the external backdrop could boost saving instead.

Chart 1: Private consumption vs consumer confidence



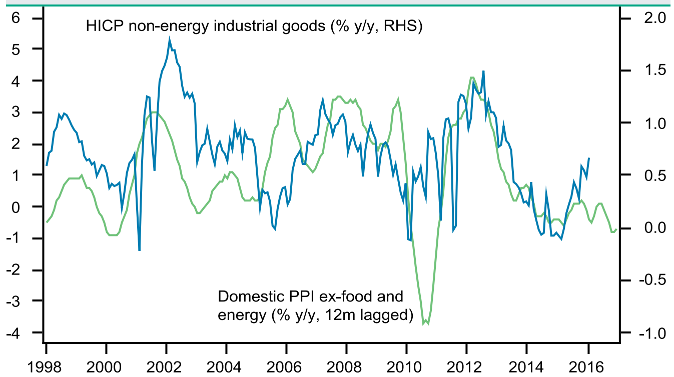
Source: Macrobond, Eurostat, BNP Paribas

Chart 2: Fixed investment vs FMCI



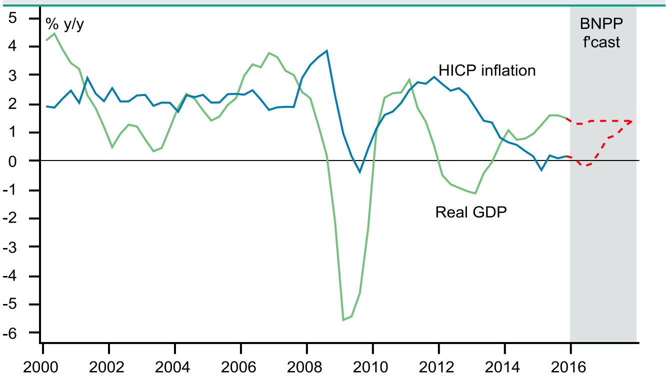
Source: Macrobond, Eurostat, BNP Paribas

Chart 3: Eurozone HICP core goods vs core PPI



Source: Macrobond, Eurostat, BNP Paribas

Chart 4: Growth and inflation



Source: Macrobond, Eurostat, BNP Paribas

Eurozone: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 [1]	16 [1]	17 [1]	Q1	Q2	Q3 [1]	Q4 [1]	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Components of growth													
GDP (% q/q)	-	-	-	-	-	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.3
GDP	-0.3	0.9	1.5	1.3	1.4	1.3	1.6	1.6	1.5	1.3	1.3	1.4	1.4
Final domestic demand	-0.8	0.9	1.7	1.7	1.4	1.6	1.8	1.8	1.7	1.5	1.7	1.8	1.8
Private consumption	-0.6	0.8	1.6	1.5	1.2	1.6	1.7	1.7	1.4	1.4	1.5	1.5	1.7
Public consumption	0.2	0.9	1.5	1.5	1.0	1.3	1.3	1.6	1.9	1.7	1.7	1.4	1.2
Fixed investment	-2.5	1.3	2.3	2.4	2.4	2.0	2.6	2.2	2.4	1.7	2.3	2.9	2.7
Stocks (contrib. to growth, q/q)	0.1	0.0	-0.2	0.0	0.1	0.1	-0.2	0.2	0.0	-0.1	0.0	0.0	0.0
Exports [2]	2.2	4.1	4.6	2.0	3.5	5.2	5.8	4.4	3.1	2.2	1.2	1.8	2.7
Imports [2]	1.3	4.5	5.0	2.9	3.9	5.8	5.5	4.9	4.0	2.7	2.6	2.6	3.5
Industrial production	-0.7	0.8	1.3	0.4	0.9	1.4	1.2	1.7	1.1	-0.1	0.3	0.4	0.7

	Year					2015				2016			
	13	14	15 [1]	16 [1]	17 [1]	Q1	Q2	Q3 [1]	Q4 [1]	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Inflation & labour													
HICP	1.4	0.4	0.0	0.0	1.1	-0.3	0.2	0.1	0.2	0.1	-0.2	-0.1	0.3
Core HICP	1.1	0.8	0.8	0.9	0.8	0.7	0.8	0.9	1.0	1.0	0.9	0.8	0.8
Producer prices	-0.2	-1.5	-2.7	-3.7	0.6	-2.9	-2.1	-2.6	-3.1	-4.3	-4.8	-3.6	-2.2
Comp. per employee	1.6	1.4	1.1	1.1	1.3	1.2	1.3	1.1	1.0	1.0	1.1	1.2	1.2
Unit labour costs	1.2	1.2	0.9	0.9	0.8	1.0	0.8	0.8	0.8	1.1	1.0	0.8	0.7
Employment	-0.7	0.6	1.0	1.1	0.9	0.9	1.0	1.1	1.2	1.2	1.1	1.0	1.0
Productivity	0.4	0.3	0.4	0.3	0.5	0.4	0.6	0.5	0.3	0.1	0.2	0.4	0.4
Unemployment rate (%)	12.0	11.6	10.9	10.2	10.0	11.2	11.0	10.7	10.5	10.3	10.2	10.1	10.1

	Year					2015				2016			
	13	14	15 [1]	16 [1]	17 [1]	Q1	Q2	Q3 [1]	Q4 [1]	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
External trade													
Trade balance (EUR bn, sa)	159	190	245	250	238	61	60	61	62	63	63	62	61
Current account (EUR bn, sa)	193	246	307	276	274	80	80	77	71	71	71	67	67
Current account (% of GDP)	1.9	2.4	3.0	2.6	2.5	3.1	3.1	2.9	2.7	2.7	2.7	2.5	2.5

	Year					2015				2016			
	13	14	15 [1]	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (EUR bn)	-294	-261	-224	-212	-186	-	-	-	-	-	-	-	-
General govt. budget (% GDP)	-3.0	-2.6	-2.2	-2.0	-1.7	-	-	-	-	-	-	-	-
Primary budget (EUR bn)	-17	7	22	31	55	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-0.2	0.1	0.2	0.3	0.5	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) [3]	91.1	92.1	91.3	90.6	89.5	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Interest & FX rates [3]													
Refinancing rate (%)	0.25	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Deposit rate (%)	0.00	0.00	-0.30	-0.70	-0.30	-0.20	-0.20	-0.20	-0.30	-0.50	-0.60	-0.70	-0.70
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60	0.02	-0.01	-0.04	-0.13	-0.40	-0.50	-0.60	-0.60
2-year rate (%) [4]	0.21	-0.11	-0.35	-0.70	-0.70	-0.25	-0.23	-0.25	-0.35	-0.55	-0.70	-0.70	-0.70
5-year rate (%) [4]	0.92	0.01	-0.05	-0.50	-0.50	-0.10	0.08	0.00	-0.05	-0.40	-0.40	-0.50	-0.50
10-year rate (%) [4]	1.94	0.54	0.63	-0.20	-0.20	0.18	0.77	0.59	0.63	0.25	0.30	0.00	-0.20
EURUSD	1.37	1.21	1.09	1.14	1.05	1.07	1.12	1.12	1.09	1.14	1.16	1.15	1.14
EURGBP	0.83	0.78	0.74	0.72	0.68	0.72	0.71	0.74	0.74	0.77	0.77	0.74	0.72
EURJPY	145	145	131	131	130	129	136	134	131	125	125	127	131

Footnotes: (1) forecast, (2) includes intra-eurozone trade, (3) end period, (4) Bund yield
Figures are year-on-year percentage changes unless otherwise indicated

Source: ECB, Eurostat, national central banks, national statistics offices, BNP Paribas forecasts

Japan: More easing ahead

Weakness to persist in Q1

With soft consumption and ongoing inventory adjustments, the economy contracted again in Q4. The weak yen-driven earnings recovery has been failing to boost capex or wages much, and falling growth expectations should keep capex subdued in the year ahead.

No hope for 2% inflation

The base effect from low oil prices is set to fade, and core CPI inflation should rise to 0.5% by the end of the year. But with output-gap improvements having stalled and the effect of yen depreciation fading, we expect ex-energy inflation to stay at 1.0% at the end of 2016.

Expect more easing

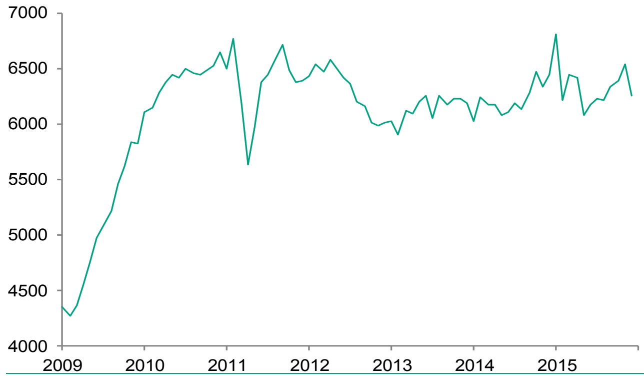
The Bank of Japan has added negative interest rates to its regime of quantitative and qualitative easing. In view of conditions in the global economy and financial markets, we think it is likely to cut the interest paid on excess reserves (IOER) again this year, quite possibly by mid-year.

Where we are different

Our growth forecast is below consensus, because we expect greater fallout from struggling emerging economies, and have a more bearish view on trend growth (0.3%). Our inflation forecast is not all that different, as our assessment of the output gap is close to the market's.

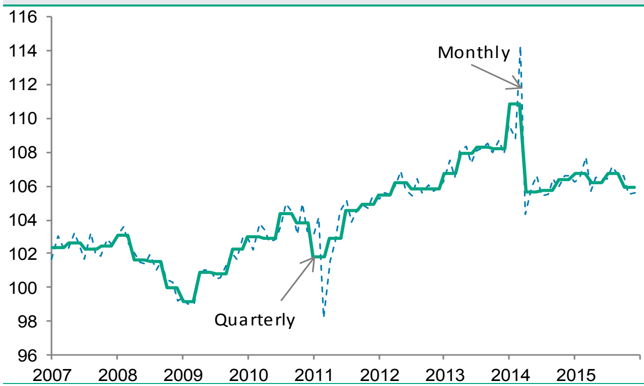
We believe the chance of another IOER cut is great. Should turbulence recur on the financial markets and risks to global growth mount, the government may again decide to postpone the hike in the VAT rate, scheduled for April 2017.

Chart 1: Real exports (sa, JPY bn)



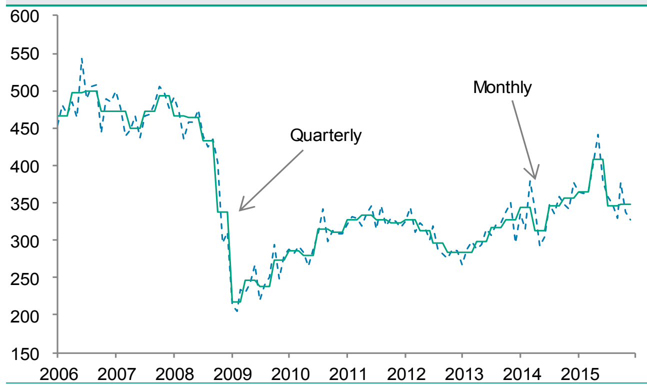
Source: Ministry of finance, Bank of Japan, BNP Paribas

Chart 2: Private consumption, integrated estimates (sa)



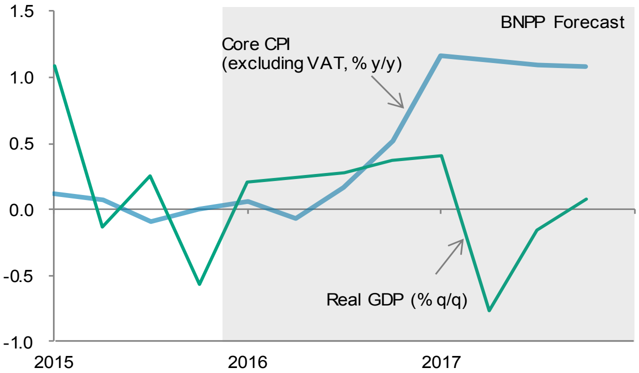
Source: Cabinet office, BNP Paribas

Chart 3: Machinery orders – manufacturing (JPY bn, sa)



Source: Cabinet office, BNP Paribas

Chart 4: Growth and inflation



Source: Cabinet office, Statistics Bureau of Japan, BNP Paribas

Japan: Economic and financial forecasts

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Components of growth													
GDP (% q/q)	-	-	-	-	-	1.0	-0.3	0.3	-0.4	0.2	0.2	0.2	0.4
GDP (% q/q annualised)	-	-	-	-	-	4.2	-1.4	1.3	-1.4	0.7	0.7	0.9	1.5
GDP (% y/y)	1.4	0.0	0.4	0.3	0.2	-1.0	0.7	1.7	0.5	-0.2	0.3	0.2	1.0
Domestic demand ex-stocks	1.9	-0.2	-0.5	0.5	0.3	0.5	-0.3	0.3	-0.4	0.3	0.2	0.3	0.5
Private consumption	1.7	-0.9	-1.2	0.1	-0.3	0.2	-0.8	0.4	-0.8	0.4	0.2	0.2	0.4
Public investment	8.0	0.4	-2.2	-3.2	1.0	-2.9	3.3	-2.0	-2.7	-2.0	0.5	0.5	0.5
Government consumption	1.9	0.1	1.1	1.4	1.2	0.2	0.5	0.2	0.5	0.3	0.3	0.3	0.3
Residential investment	8.4	-5.3	-2.6	1.7	-0.7	2.1	2.3	1.6	-1.2	-0.1	0.0	2.0	1.5
Private non-residential investment	-0.5	3.1	1.3	1.4	1.2	2.8	-1.2	0.7	1.4	0.0	0.0	0.1	1.0
Stocks (contrib. to growth)	-0.2	0.2	0.5	-0.1	0.1	0.5	0.3	-0.2	-0.1	0.0	0.0	0.0	0.0
Exports	1.2	8.3	2.7	0.1	0.8	2.1	-4.6	2.6	-0.9	0.3	0.2	0.2	0.2
Imports	3.1	7.2	0.2	0.2	1.7	1.9	-2.6	1.3	-1.4	0.5	0.4	0.5	1.0
Industrial production (% q/q)	-	-	-	-	-	1.5	-1.4	-1.2	0.7	0.4	0.1	0.2	0.8
Industrial production (% y/y)	-0.8	2.1	-0.9	0.4	0.5	-2.1	-0.5	-0.4	-0.4	-1.5	0.0	1.4	1.5
Savings ratio (%)	-0.1	-0.8	0.4	0.6	0.1	-	-	-	-	-	-	-	-

	Year					2015				2016			
(% y/y)	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Inflation & labour													
GDP deflator	-0.6	1.7	2.1	0.2	1.2	3.3	1.5	1.8	1.5	0.7	0.1	-0.2	-0.1
Consumption deflator	-0.3	2.0	0.1	-0.3	1.2	1.4	-0.2	-0.2	-0.2	0.0	-0.3	-0.3	-0.1
CPI	0.4	2.7	0.8	0.2	1.8	2.3	0.5	0.2	0.3	-0.1	-0.3	-0.1	0.5
Core CPI	0.4	2.6	0.5	0.2	1.8	2.1	0.1	-0.1	0.0	0.1	-0.1	0.2	0.5
ex consumption tax	0.4	1.1	0.0	0.2	1.1	0.1	0.1	-0.1	0.0	0.1	-0.1	0.2	0.5
ex energy and consumption tax	-0.2	0.7	0.8	1.1	1.1	0.4	0.7	1.0	1.2	1.2	1.1	0.9	1.0
Monthly wages	-0.4	0.4	0.1	0.9	1.2	0.2	-0.7	0.6	0.2	0.6	0.9	0.8	1.2
Employment	0.7	0.6	0.4	0.2	0.0	0.6	0.2	0.4	0.4	0.2	0.2	0.2	0.2
Unemployment rate (%)	4.0	3.6	3.4	3.1	2.9	3.5	3.3	3.4	3.2	3.2	3.2	3.1	3.0

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
External trade													
Trade balance (JPY trn, sa)	-8.8	-10.4	-0.6	0.2	-1.1	0.1	-0.2	-0.7	0.1	0.3	0.1	-0.0	-0.2
Current account (JPY trn, sa)	3.9	2.6	16.6	17.9	16.9	3.9	4.2	3.7	4.6	4.7	4.5	4.4	4.3
Current account (% of GDP)	0.8	0.5	3.3	3.6	3.3	3.1	3.4	2.9	3.6	3.8	3.6	3.5	3.4

	Year					2015				2016			
	13	14	15 [1]	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
Money supply (M2, % y/y) [2]	3.9	3.3	4.0	4.2	4.4	-	-	-	-	-	-	-	-
Government budget (JPY trn) [2]	-34.9	-28.2	-22.8	-18.9	-16.5	-	-	-	-	-	-	-	-
Government budget (% of GDP) [2]	-7.2	-5.8	-4.6	-3.7	-3.2	-	-	-	-	-	-	-	-
Primary balance (% of GDP) [2]	-5.5	-4.1	-3.3	-2.7	-2.4	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) [2]	203	206	207	208	209	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Interest & FX rates [3]													
IOER (%)	0.10	0.10	0.10	-0.30	-0.50	0.10	0.10	0.10	0.10	-0.10	-0.30	-0.30	-0.30
Overnight call rate (%)	0.10	0.10	0.10	-0.30	-0.50	0.10	0.10	0.10	0.10	-0.10	-0.30	-0.30	-0.30
3-month rate (%)	0.22	0.18	0.17	-0.10	-0.25	0.17	0.17	0.17	0.17	0.10	0.00	-0.05	-0.10
2-year rate (%)	0.09	-0.02	-0.04	-0.40	-0.60	0.04	0.00	0.01	-0.04	-0.20	-0.40	-0.40	-0.40
5-year rate (%)	0.25	0.03	0.03	-0.35	-0.50	0.13	0.11	0.06	0.03	-0.20	-0.35	-0.35	-0.35
10-year rate (%)	0.74	0.33	0.27	-0.10	-0.25	0.39	0.45	0.35	0.27	0.00	-0.10	-0.10	-0.10
USDJPY	105	120	120	115	124	120	122	120	120	110	108	110	115
EURJPY	145	145	131	131	130	129	136	134	131	125	125	127	131

Footnotes: (1) forecast, (2) FY, general government excluding social-security funds, (3) end period

Figures are quarter-on-quarter percentage changes unless otherwise indicated

Source: Bank of Japan, ministry finance, cabinet office, MIC, BNP Paribas forecasts

China: More growth hits from rebalancing

Downward growth trend

China appears determined to carry on supply-side restructuring to cut overcapacity, reduce housing inventory and de-leverage. While this is good for rebalancing the economy in the medium and long term, it is likely to undermine the growth momentum further in 2016-17.

PPI deflation to continue

There is little upward inflation pressure in prospect, either from home or abroad. Producer prices should keep falling this year, with only a small improvement in 2016 from 2015. Prices of food and services might increase modestly, though, so we expect CPI inflation to edge up slightly.

Fiscal policy, not monetary

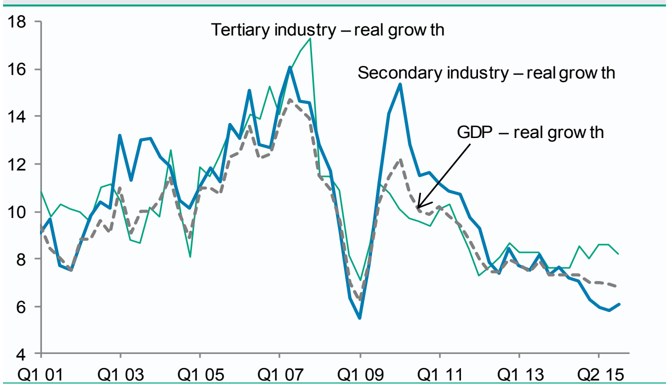
As well as using loose monetary policy to meet growth demand, to balance liquidity management against RMB stability and to prevent a financial crisis, we believe aggressive fiscal policy is needed, including wider budget deficits and a change in the expenditure structure.

Where we are different

Our growth forecasts are more conservative than consensus. We foresee a difficult transition, with most supply-side restructuring not to be carried out until next year. A minimum growth rate will have to be maintained for social and financial stability; it might not trough until 2017.

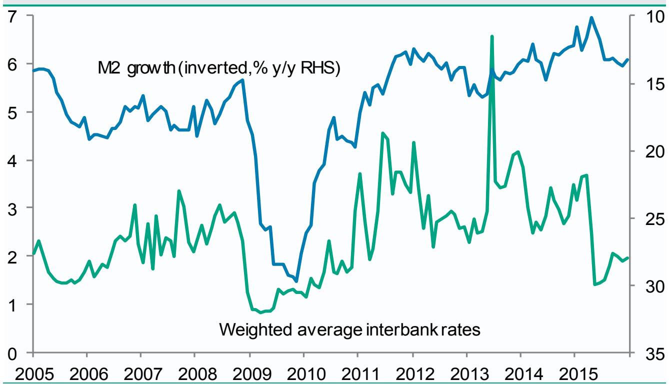
While policymakers remain committed to maintaining RMB basic stability against a basket of currencies, with faith in sound economic fundamentals, we believe central-bank intervention is effective. We expect less depreciation than the market average in 2016 and predict the RMB will appreciate in 2017.

Chart 1: Quarterly GDP growth (% y/y)



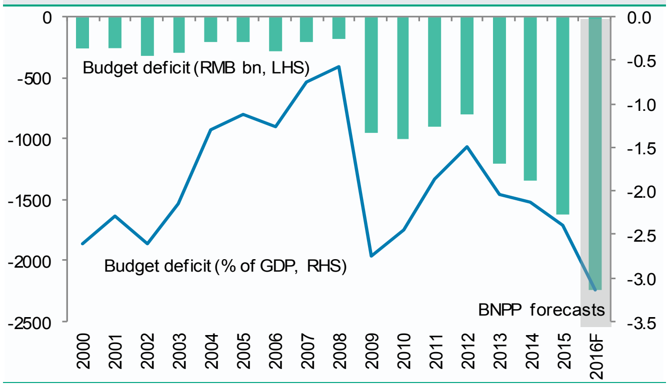
Source: NBS, BNP Paribas

Chart 2: M2 vs weighted interest rate (%)



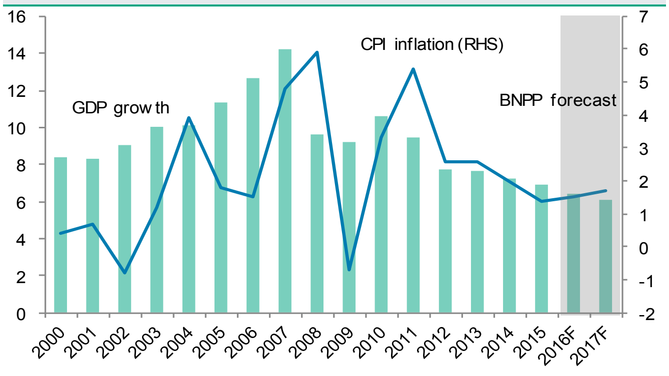
Source: PBOC, BNP Paribas

Chart 3: Central-government budget deficit



Source: Finance ministry, NBS, BNP Paribas

Chart 4: GDP and inflation forecast (% y/y)



Source: NBS, BNP Paribas

China: Economic and financial forecasts

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Components of growth [2]													
Total GDP real	7.7	7.3	6.9	6.4	6.1	7.0	7.0	6.9	6.8	6.4	6.3	6.5	6.4
GDP (q/q, saar)	-	-	-	-	-	5.3	7.8	7.4	6.6	4.9	6.6	7.4	6.1
Industrial output [3]	9.7	8.3	6.1	5.5	5.0	6.4	6.3	5.9	5.9	5.4	5.2	5.6	5.5
Total GDP nominal	10.1	8.1	6.4	6.0	8.3	6.6	7.1	6.2	5.8	5.0	5.4	6.2	7.0
Retail sales	13.1	12.0	10.7	10.0	9.8	10.6	10.2	10.7	11.2	10.4	10.2	10.0	9.7
Fixed-asset investment	19.6	15.7	10.0	8.0	6.8	13.5	10.4	8.6	9.2	8.2	7.8	8.3	7.8
Exports	7.9	6.1	-2.9	-0.3	3.0	4.6	-2.2	-5.9	-5.2	-3.2	-1.0	0.7	1.8
Imports	7.3	0.4	-14.2	-6.0	5.0	-17.8	-13.6	-14.4	-11.8	-8.2	-7.8	-3.5	-4.8

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Inflation													
GDP deflator	2.2	0.8	-0.5	-0.4	2.0	-0.3	0.1	-0.7	-0.9	-1.3	-0.9	-0.3	0.5
CPI	2.6	2.0	1.4	1.5	1.7	1.2	1.4	1.7	1.5	1.8	1.5	1.0	1.8
PPI	-1.9	-1.9	-5.2	-4.1	0.7	-4.6	-4.7	-5.7	-5.9	-5.4	-5.4	-3.7	-2.1

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
External trade													
Trade balance (USD bn) [4]	259.0	383.1	593.0	687.1	676.1	123.7	139.5	163.6	166.1	139.3	166.6	183.0	198.2
Current account (USD bn)	148.2	219.7	293.3	338.2	234.8	75.6	73.0	60.3	84.3	77.3	101.8	98.0	61.1
Current account (% of GDP)	1.5	2.1	2.8	3.1	2.2	3.2	2.7	2.2	2.9	3.3	3.8	3.5	2.0
Memo: Nom. GDP (USD bn)	9572	10373	10657	10805	11566	2356	2681	2729	2910	2372	2707	2805	2984

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Financial variables													
Gen. govt. budget (% of GDP) [5]	-2.0	-2.1	-2.4	-3.1	-3.3	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-1.5	-1.5	-1.6	-2.2	-2.1	-	-	-	-	-	-	-	-
Foreign reserves (USD bn) [6]	3821	3843	3330	2988	3121	3730	3694	3514	3330	3128	3030	3058	2988

	Year					2015				2016			
	13	14	15	16 [1]	17 [1]	Q1	Q2	Q3	Q4	Q1 [1]	Q2 [1]	Q3 [1]	Q4 [1]
Interest & FX rates [6]													
Official lending rate (%)	6.00	5.60	4.35	4.10	4.10	5.35	5.10	4.60	4.35	4.35	4.10	4.10	4.10
USDRMB	6.05	6.21	6.49	6.78	6.65	6.28	6.20	6.36	6.49	6.55	6.47	6.57	6.78

Footnotes: (1) forecast; (2) forecasts of GDP and industrial output are in real terms, but, in the absence of data, forecasts of consumption, investment, exports and imports are in nominal terms; exports are not directly comparable between 2013 and 2014 because of rampant export over-invoicing in H1 2013; (3) industrial output for enterprises with annual revenue of more than RMB 5mn; (4) trade balance is the customs merchandise trade balance; (5) government budget balance denotes the fiscal balance released by the ministry of finance, not the actual budget balance; (6) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: People's Bank of China, National Bureau of Statistics of China, BNP Paribas forecasts

Germany: Held back

Exports limit upside

Another year of solid consumer spending looks likely in 2016, after 2015's estimated growth of close to 2.0%, its strongest performance since 2000. However, soft demand abroad and Germany's high export-to-GDP ratio mean overall growth is likely to remain around 1.5%.

Tight labour market

Wage growth has held up well, despite persistently low headline inflation, suggesting that the tight labour market is having an impact. Real wages and salaries have been growing at their highest rate since at least the mid-1990s.

Modest price pressures

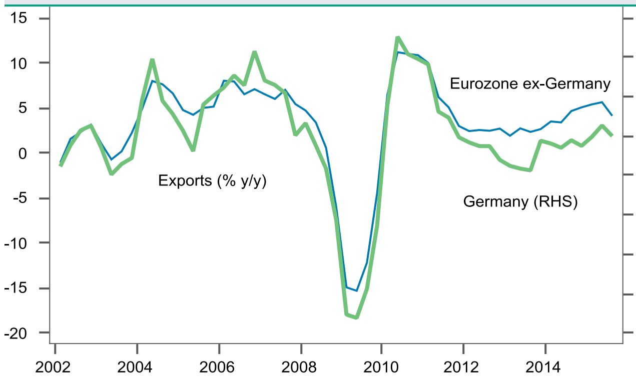
While higher productivity growth should limit the impact on unit labour costs, higher wages signal some upward pressure on services inflation. This, however, should be partially offset by the impact of lower commodity prices and the exchange rate on goods inflation.

Where we are different

Our growth forecasts are below consensus. In part, this reflects our downbeat assessment of global conditions that weigh on an export-oriented economy such as Germany. Moreover, German export growth is expected to remain soft compared with the eurozone's.

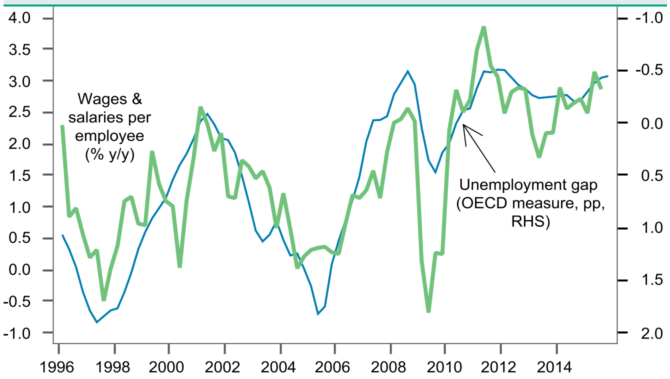
Another factor behind our softer German growth forecast is our view that taxes and continued soft non-wage income developments will, to some extent, dampen disposable income growth and therefore consumer spending.

Chart 1: Export growth to remain lacklustre



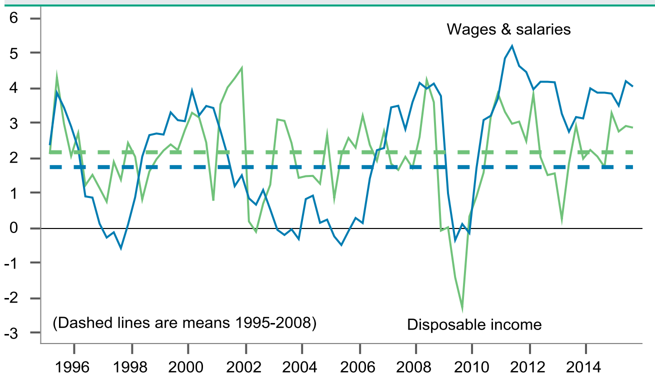
Source: Macrobond, Eurostat, BNP Paribas

Chart 2: Tight labour market helping wages



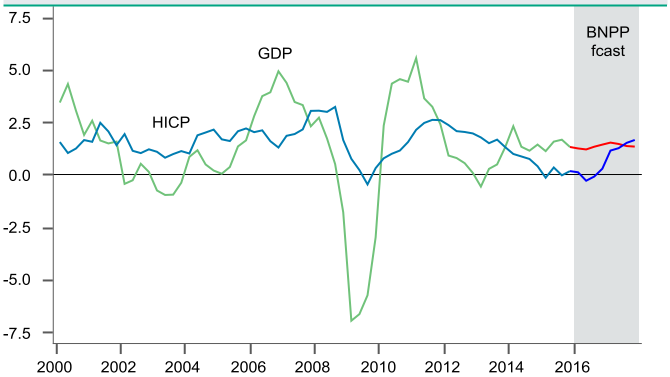
Source: Macrobond, German Federal Statistics, OECD, BNP Paribas

Chart 3: Disposable income held back



Source: Macrobond, German Federal Statistics, BNP Paribas

Chart 4: Growth and inflation



Source: Macrobond, German Federal Statistics, BNP Paribas

Germany: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth (2)													
GDP (% q/q)	-	-	-	-	-	0.3	0.4	0.3	0.3	0.2	0.4	0.4	0.4
GDP	0.4	1.6	1.4	1.3	1.5	1.1	1.6	1.7	1.4	1.3	1.2	1.4	1.5
Domestic demand ex. stocks	0.3	1.7	2.0	1.9	1.6	1.7	2.1	2.2	1.9	1.7	2.1	2.0	1.9
Private consumption	0.8	1.0	1.8	1.5	1.2	1.9	2.1	2.0	1.3	1.2	1.6	1.5	1.6
Public consumption	0.8	1.7	2.6	3.0	2.1	2.1	2.2	2.9	3.4	3.5	3.4	2.8	2.5
Fixed investment	-1.3	3.5	1.7	2.1	2.2	0.6	1.8	2.2	2.2	1.2	2.1	2.9	2.3
Stocks (contrib. to growth, q/q)	0.5	-0.3	-0.6	-0.1	0.1	-0.1	-0.3	0.2	-0.2	0.0	0.0	0.0	0.1
Exports	1.8	3.9	4.8	1.9	4.3	4.9	6.3	5.0	3.2	2.0	0.9	1.6	3.1
Imports	3.2	3.7	5.2	3.1	5.4	5.7	5.3	6.1	3.5	2.3	2.7	2.8	4.7
Industrial production	0.1	1.3	1.0	0.9	2.6	0.6	1.7	1.5	0.1	-0.1	-0.1	1.2	2.6
Savings ratio	9.2	9.5	9.6	9.9	9.7	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
HICP	1.6	0.8	0.1	0.0	1.4	-0.1	0.4	0.0	0.2	0.2	-0.3	-0.1	0.3
Core HICP	1.2	1.1	1.1	1.2	1.3	1.0	1.1	1.0	1.2	1.3	1.3	1.2	1.1
Compensation per employee	1.8	2.6	2.7	2.4	2.7	2.4	3.0	2.7	2.6	2.5	2.2	2.5	2.5
Employment	0.6	0.9	0.8	0.9	0.9	0.7	0.7	0.8	0.9	1.0	0.9	0.9	0.8
Unemployment rate (%)	6.9	6.7	6.4	6.3	6.2	6.5	6.4	6.4	6.4	6.3	6.3	6.2	6.2

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (EUR bn, sa)	155.2	175.0	211.9	204.9	201.8	50.5	56.3	53.4	51.7	51.1	51.3	51.5	51.1
Current account (EUR bn, nsa)	184.7	215.9	243.3	238.7	240.3	60.3	62.6	59.8	60.5	59.8	58.9	58.7	61.3
Current account (% of GDP)	6.5	7.4	8.1	7.7	7.6	8.1	8.3	7.9	8.0	7.8	7.7	7.6	7.8

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
Federal govt. budget (EUR bn)	-7.7	8.6	15.1	6.2	6.4	-	-	-	-	-	-	-	-
General govt. budget (EUR bn)	-3.1	8.9	22.5	10.2	8.1	-	-	-	-	-	-	-	-
General govt. budget (% of GDP)	-0.1	0.3	0.7	0.3	0.3	-	-	-	-	-	-	-	-
Primary budget (EUR bn)	52.9	60.4	68.4	54.6	52.2	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	1.9	2.1	2.3	1.8	1.6	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (3)	77.4	74.9	71.6	69.2	67.0	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates (3)													
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60	0.02	-0.01	-0.04	-0.13	-0.40	-0.50	-0.60	-0.60
10-year rate (%)	1.90	0.54	0.63	-0.20	-0.20	0.18	0.77	0.59	0.63	0.25	0.30	0.00	-0.20

Footnotes: (1) forecast or preliminary data, (2) calendar and seasonally adjusted, (3) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Macrobond, German Federal Statistics, BNP Paribas forecasts

France: Weak but resilient growth

Rising external risks

The new year has brought fresh concern about French growth, fuelled by the emerging-market downturn, oil-price plunge and equities sell-off. While these factors will slow the recovery, we do not expect them to derail it, as stronger domestic demand should offset weaker exports.

Better internal prospects

Household consumption should be backed by ultra-low inflation and improved employment, while business investment should be kept in recovery by a rise in profit margins and by tax breaks on equipment/machinery. We also see a nascent upturn in household investment.

Some fiscal tightening

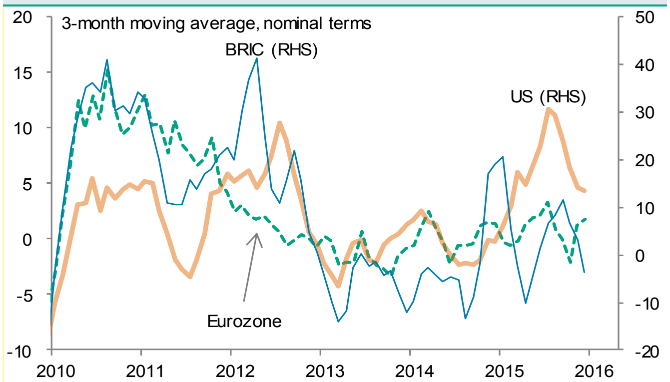
France will stand out among Eurozone countries on the budget front, with a slightly negative fiscal impulse in 2016 and 2017. A small slippage from the official deficit targets is likely because of weak growth and inflation on top of a long series of new spending measures.

Where we are different

We see growth remaining tepid but being built on a somewhat firmer basis than in 2015. After 1.1% growth last year, we expect 1.2% for 2016 and 1.3% for 2017 in annual average terms, below current consensus expectations (0.2 and 0.3pp lower, respectively).

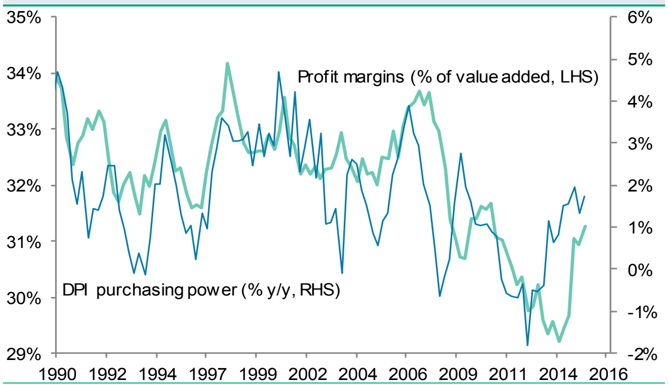
Our lower growth forecast is due, first, to a more pessimistic view on exports, hurt by the less favorable external environment. In addition, contrary to consensus, we see consumption slowing down next year, as higher inflation will drag down real disposable income.

Chart 1: Key destinations of goods exports (% y/y)



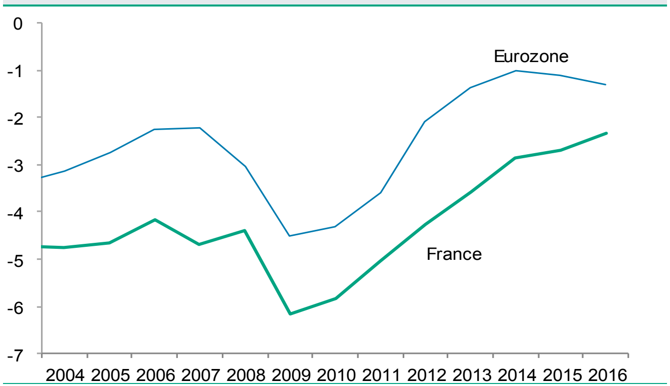
Source: Customs, Macrobond, BNP Paribas

Chart 2: Growth-supportive factors



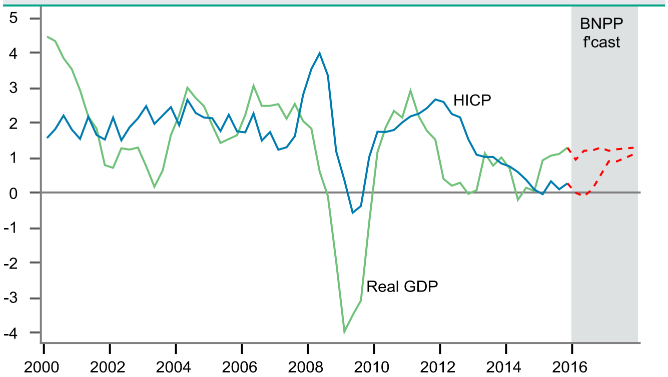
Source: INSEE, Macrobond, BNP Paribas

Chart 3: Structural deficit (% of GDP)



Source: European Commission, Macrobond, BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: Eurostat, INSEE, Macrobond, BNP Paribas

France: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth (2)													
GDP (% q/q)	-	-	-	-	-	0.7	0.0	0.3	0.2	0.4	0.3	0.3	0.3
GDP	0.7	0.2	1.1	1.2	1.3	0.9	1.1	1.1	1.3	0.9	1.2	1.2	1.3
Domestic demand ex stocks	0.6	0.5	1.1	1.4	1.4	1.1	1.0	1.1	1.0	1.2	1.4	1.5	1.7
Private consumption	0.5	0.6	1.4	1.4	1.3	1.8	1.4	1.5	0.8	0.9	1.3	1.4	2.1
Public consumption	1.7	1.5	1.5	1.3	0.9	1.6	1.5	1.5	1.4	1.4	1.4	1.2	1.0
Fixed investment	-0.4	-1.2	-0.1	1.7	2.0	-0.9	-0.5	-0.1	1.1	1.5	1.7	1.9	1.5
Stocks (contrib. to growth, q/q)	0.2	0.2	0.2	0.1	0.0	0.4	-0.4	0.6	0.5	-0.5	0.0	0.0	0.0
Exports	1.8	2.4	5.9	1.8	3.1	5.7	8.0	6.0	3.8	2.5	0.9	2.1	2.0
Imports	1.8	3.9	6.1	3.1	3.3	6.1	6.1	6.1	6.2	3.8	3.7	2.9	2.0
GDP unadjusted (3)	0.7	0.2	1.1	1.2	1.3	0.9	1.1	1.1	1.3	1.0	1.3	1.2	1.3
Industrial production	-0.5	-1.1	1.3	1.4	1.6	1.3	1.0	0.8	2.0	0.9	1.6	1.5	1.7
Savings ratio (%)	14.7	15.1	15.4	15.8	15.5	15.3	15.1	15.5	15.9	16.1	15.9	15.8	15.3
	Year					**2015**				**2016**			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
HICP	1.0	0.6	0.1	0.2	1.0	-0.2	0.3	0.1	0.2	0.1	-0.1	0.2	0.5
Core HICP	0.7	1.0	0.6	0.7	0.6	0.4	0.7	0.7	0.8	0.7	0.7	0.6	0.8
Monthly wages	1.7	1.4	1.2	1.3	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.4
Private non-farm payrolls	-0.8	-0.3	0.1	0.4	0.4	-0.3	0.0	0.2	0.3	0.5	0.4	0.4	0.4
Unemployment rate (%)	10.3	10.3	10.4	10.2	10.1	10.4	10.4	10.5	10.2	10.2	10.2	10.1	10.1
	Year					**2015**				**2016**			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (EUR bn, sa)	-62	-58	-45	-41	-52	-12	-10	-10	-13	-12	-11	-10	-9
Current account (EUR bn, sa)	-18	-20	1	0	-17	-1	3	2	-3	-3	-1	1	2
Current account (% of GDP)	-0.8	-0.9	0.0	0.0	-0.7	-0.2	0.6	0.3	-0.6	-0.6	-0.1	0.2	0.4
	Year					**2015**				**2016**			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
Central govt. budget (EUR bn)	-75	-86	-71	-67	-64	-	-	-	-	-	-	-	-
Central govt. budget (% of GDP)	-3.5	-4.0	-3.2	-3.0	-2.8	-	-	-	-	-	-	-	-
Gen. public budget (EUR bn) (5)	-86	-84	-82	-77	-73	-	-	-	-	-	-	-	-
Gen. public budget (% of GDP) (5)	-4.1	-3.9	-3.7	-3.5	-3.2	-	-	-	-	-	-	-	-
Primary budget (EUR bn) (5)	-38	-38	-37	-30	-24	-	-	-	-	-	-	-	-
Primary budget (% of GDP) (5)	-1.8	-1.8	-1.7	-1.4	-1.1	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (4) (5)	92.2	95.6	97.0	97.9	98.3	-	-	-	-	-	-	-	-
	Year					**2015**				**2016**			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates (4)													
3-month (%)	0.29	0.08	-0.13	-0.60	-0.60	0.02	-0.01	-0.04	-0.13	-0.40	-0.50	-0.60	-0.60
10-year rate (%)	2.43	0.82	0.98	0.10	0.10	0.47	1.19	0.98	0.98	0.65	0.60	0.30	0.10
Spread over Bund (bp)	49	28	35	30	30	29	42	39	35	40	30	30	30

Footnotes: (1) forecast, (2) calendar and seasonally adjusted, (3) unadjusted for calendar effects (BNP Paribas estimate), (4) end period and (5) Maastricht definition
Figures are year-on-year percentage changes unless otherwise indicated

Source: Bank of France, INSEE, Eurostat, ECB, BNP Paribas forecasts

Italy: Above potential

Growth revised down

We have revised down growth for both 2016 and 2017. We see growth at just 1% this year, still below the eurozone average, but well above its potential growth rate, estimated at around zero.

Solid domestic demand

Domestic demand should be supported by tax cuts, incentives for firms to invest, a loose monetary stance, cheap oil and the 2016 Christian Jubilee. Italy's exports are particularly sensitive to FX movements, so the stronger euro will be an added burden to weaker global demand.

No inflation

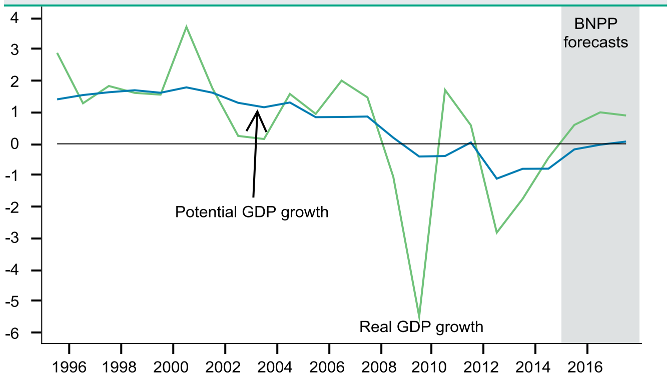
Spare capacity will remain quite high and continue to put downward pressure on price and wage formation. We expect core inflation to remain well below 1% and headline inflation to be almost flat in 2016. Energy-related base effects should push up inflation in 2017.

Where we are different

We are below consensus on growth for both 2016 and 2017. The economy ended 2015 on a soft note, which will affect the growth outlook this year. Market concern over the banking sector should somewhat affect the recovery in credit, weighing on domestic demand.

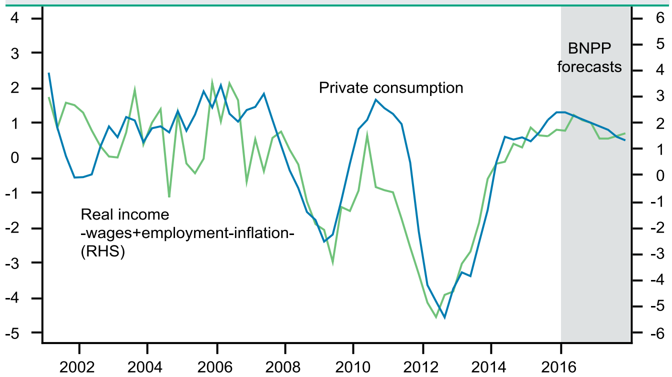
Risks to our forecast are to the downside, nonetheless. The EU Commission might reject part of Italy's request for greater flexibility and require it to implement significant fiscal consolidation in 2017.

Chart 1: Growth above potential (% y/y)



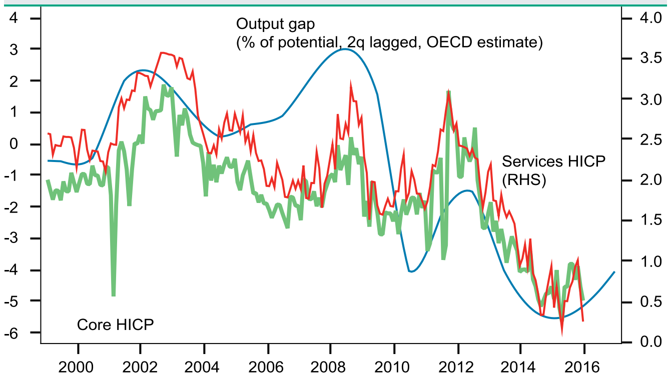
Source: European Commission, Istat, Macrobond, BNP Paribas

Chart 2: Consumption doing well (% y/y)



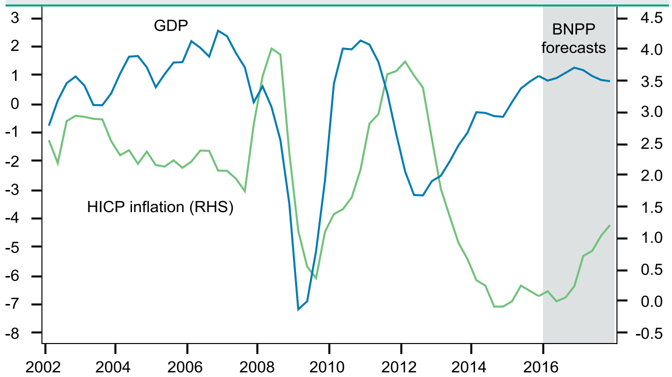
Source: Istat, Macrobond, BNP Paribas

Chart 3: No inflation (% y/y)



Source: Eurostat, OECD, Macrobond, BNP Paribas

Chart 4: Growth and inflation projections (% y/y)



Source: Eurostat, Istat, BNP Paribas

Italy: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-		0.4	0.3	0.2	0.1	0.2	0.4	0.3	0.3
GDP	-1.8	-0.4	0.6	1.0	0.9	0.1	0.5	0.8	1.0	0.8	0.9	1.1	1.3
Domestic demand ex. stocks	-2.9	-0.5	0.6	1.2	0.9	0.3	0.6	0.9	0.7	0.8	1.1	1.3	1.6
Private consumption	-2.6	0.4	0.8	1.1	0.7	0.5	0.7	1.1	1.1	1.3	1.2	1.0	1.1
Public consumption	-0.3	-0.7	0.3	0.3	0.4	0.3	0.6	0.4	-0.2	0.0	0.4	0.3	0.5
Fixed investment	-6.6	-3.4	0.3	2.7	2.5	-0.2	0.3	0.9	0.1	0.0	1.9	3.5	5.2
Stocks (contrib. to growth, q/q)	0.2	0.0	0.2	0.1	0.0	0.5	0.2	0.3	-0.1	0.0	0.0	0.0	0.0
Exports	1.0	2.8	3.9	2.3	3.6	5.0	5.0	3.5	2.3	1.8	1.3	3.0	3.2
Imports	-2.4	2.7	5.2	3.6	3.7	5.2	5.9	5.1	4.7	3.1	2.9	3.5	4.7
Industrial production	-3.1	-0.3	1.0	1.8	0.6	-0.2	1.0	2.0	1.1	0.4	0.7	0.8	1.3

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
HICP	1.3	0.2	0.1	0.1	0.9	-0.1	0.1	0.3	0.2	0.2	0.0	0.1	0.2
Core HICP	1.3	0.7	0.7	0.7	0.7	0.6	0.5	0.9	0.7	0.7	0.7	0.6	0.7
Monthly wages	1.4	1.3	1.0	0.9	1.3	1.1	1.2	1.2	1.0	0.7	0.8	0.9	1.0
Employment	-1.5	0.3	0.8	0.8	1.0	0.7	0.9	0.9	0.6	0.7	0.6	0.7	1.0
Unemployment rate (%)	12.2	12.7	11.9	11.0	10.7	12.2	12.3	11.7	11.4	11.3	11.1	10.9	10.8

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (EUR bn)	36.0	49.2	51.3	48.0	47.4	9.5	12.4	13.6	15.8	8.6	11.2	13.5	14.7
Current account (EUR bn)	14.3	30.8	34.4	30.6	31.5	0.6	6.3	11.6	15.9	-0.8	4.4	11.5	15.4
Current account (% of GDP)	0.9	1.9	2.1	1.8	1.9	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (EUR bn)	-47.3	-49.0	-44.9	-45.9	-39.2	-	-	-	-	-	-	-	-
General govt. budget (% of GDP)	-2.9	-3.0	-2.7	-2.8	-2.3	-	-	-	-	-	-	-	-
Primary budget (EUR bn)	30.6	26.0	24.6	21.5	26.3	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	1.9	1.6	1.5	1.3	1.6	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	128.8	132.3	133.0	133.3	133.2	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates (2)													
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60	0.02	-0.01	-0.04	-0.13	-0.40	-0.50	-0.60	-0.60
10-year rate (%)	4.09	1.88	1.58	0.95	0.80	1.28	2.30	1.81	1.58	1.50	1.45	1.25	0.95
Spread over Bund (bp)	215	134	95	115	100	110	153	122	95	125	115	125	115

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Istat, Bank of Italy, Eurostat, ECB, BNP Paribas forecasts

Spain: Gentle slowdown

Growth set to slow

Spain is set to remain the eurozone's outperformer in terms of economic growth over our forecast period. But the loss of momentum in leading indicators suggests GDP growth will moderate from 2015's strong rate.

Domestic demand is key

Robust confidence, more jobs and higher real disposable incomes thanks to lower inflation suggest private consumption will remain a growth driver. Investment, meanwhile, is likely to be boosted by lower commodity prices and the continued decline in private-sector interest rates.

Inflation revised lower

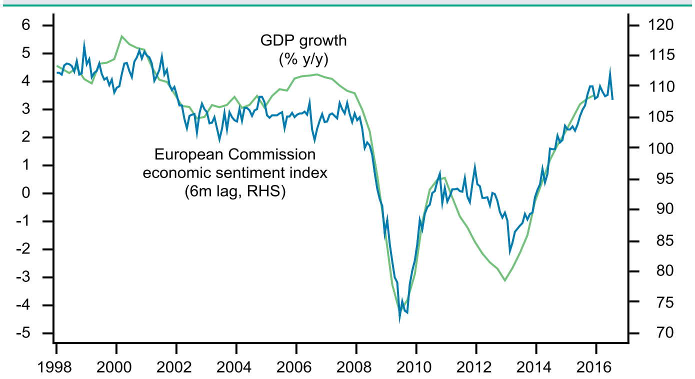
Lower oil prices and the recent EUR strengthening lead us to revise down our headline HICP inflation forecasts. The potential second-round effects of lower oil prices on wage formation and inflation expectations should also put a lid on the gentle upward trend in core inflation.

Where we are different

Our GDP forecasts are slightly below consensus expectations. This partly stems from our view that the slowdown in emerging economies, compounded by the impact of the stronger euro, is likely to weigh on export growth more than the market expects.

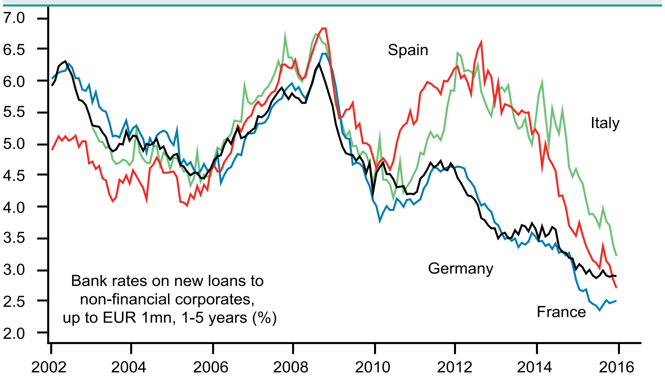
We also believe the economic cost of protracted political uncertainty could be significant. Post-election efforts to form a government are increasingly pointing towards a new election, which would risk prolonging, rather than resolving, uncertainty.

Chart 1: Economic sentiment and real GDP growth



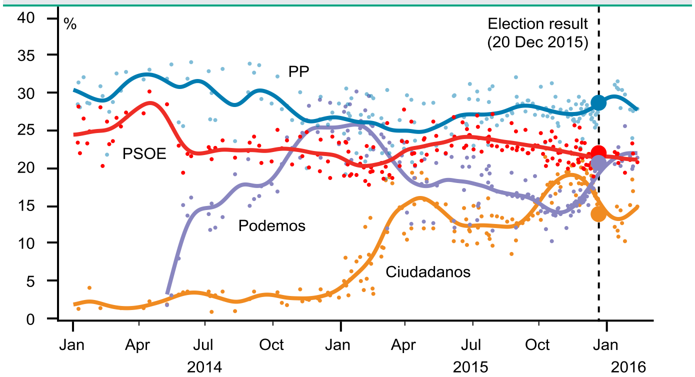
Source: Macrobond, European Commission, INE, BNP Paribas

Chart 2: Rates on new loans to non-financial corporates



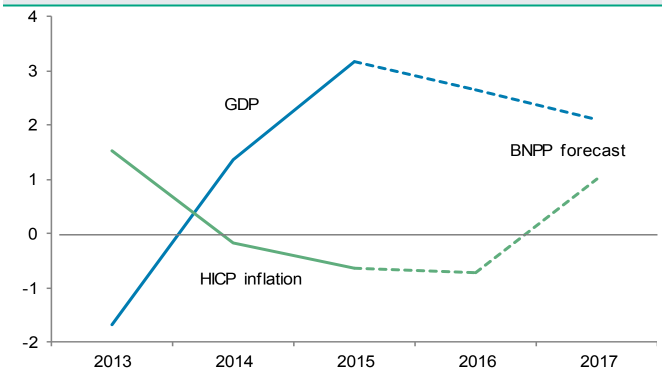
Source: Macrobond, ECB, BNP Paribas

Chart 3: Latest Spanish opinion polls vs election result



Source: Spanish Ministry of Interior, aggregated opinion polls, BNP Paribas

Chart 4: GDP and inflation forecasts (% y/y)



Source: Macrobond, INE, BNP Paribas [dotted lines for 2016-17]

Spain: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-	-	0.9	1.0	0.8	0.8	0.6	0.5	0.5	0.5
GDP	-1.7	1.4	3.2	2.6	2.1	2.7	3.2	3.4	3.5	3.2	2.7	2.5	2.2
Domestic demand ex stocks	-2.9	1.4	3.6	2.9	2.2	2.9	3.5	4.0	4.1	3.7	3.1	2.6	2.4
Private consumption	-3.1	1.2	3.0	2.9	2.2	2.4	2.9	3.4	3.5	3.5	3.1	2.7	2.4
Public consumption	-2.8	0.0	2.5	1.0	0.2	1.2	2.1	3.0	3.5	1.9	1.3	0.5	0.3
Fixed investment	-2.5	3.5	6.2	4.8	3.8	6.0	6.3	6.5	6.2	5.9	4.6	4.5	4.3
- Construction	-7.1	-0.2	5.7	4.9	3.5	6.2	5.5	5.5	5.7	5.6	4.6	5.0	4.4
- Other	4.0	10.6	9.8	6.9	5.5	8.1	9.9	10.7	10.4	9.5	7.0	6.0	5.5
Stocks (contrib. to growth, y/y)	-0.2	0.1	-0.1	-0.1	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exports	4.3	5.1	5.4	2.2	3.1	5.9	6.2	5.6	4.2	3.5	2.4	0.5	2.4
Imports	-0.3	6.4	7.0	2.9	3.5	7.2	7.0	7.7	6.1	4.3	3.6	0.7	3.1
Industrial production	-1.6	1.2	3.2	2.1	1.7	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
HICP	1.5	-0.2	-0.6	-0.7	1.0	-1.1	-0.3	-0.6	-0.5	-0.6	-1.2	-0.8	-0.2
Core HICP	1.3	-0.1	0.3	0.5	0.5	0.0	0.3	0.4	0.6	0.6	0.5	0.4	0.4
Compensation per employee	0.9	-0.4	0.5	0.4	0.7	0.6	0.4	0.5	0.5	0.2	0.3	0.5	0.6
Employment	-2.9	0.9	2.9	2.3	2.2	2.9	2.9	3.0	2.9	2.8	2.4	2.2	2.0
Unemployment rate (%)	26.1	24.5	22.1	20.6	19.6	23.1	22.5	21.7	21.0	21.0	20.8	20.4	20.0

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (EUR bn)	-16.0	-24.5	-26.7	-27.8	-28.3	-5.5	-6.0	-7.2	-8.1	-4.6	-5.1	-7.7	-10.4
Current account (EUR bn)	15.6	10.2	9.6	7.2	5.4	-1.4	3.0	6.1	1.9	3.4	2.9	1.8	-0.9
Current account (% of GDP)	1.5	1.0	0.9	0.6	0.5	-0.5	1.1	2.2	0.7	1.2	1.1	0.6	-0.3

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (EUR bn)	-71.2	-61.3	-51.6	-42.2	-30.7	-	-	-	-	-	-	-	-
General govt. budget (% of GDP) (2)	-6.9	-5.9	-4.8	-3.8	-2.7	-	-	-	-	-	-	-	-
Primary budget (EUR bn)	-36.6	-26.0	-19.0	-9.8	0.0	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-3.5	-2.5	-1.8	-0.9	0.0	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (3)	93.7	99.3	100.7	101.6	101.4	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates (3)													
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60	0.02	-0.01	-0.04	-0.13	-0.40	-0.50	-0.60	-0.60
10-year rate (%)	4.10	1.59	1.75	1.05	0.80	1.21	2.42	1.88	1.75	1.65	1.55	1.35	1.05
Spread over Bund (bp)	220	105	112	125	100	103	165	129	112	140	125	135	125

Footnotes: (1) forecast, (2) includes one-off transfers, (3) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: INE, Bank of Spain, Eurostat, ECB, BNP Paribas forecasts

Netherlands: Getting its house in order

Domestic growth engine

The recovery in the labour market, lower interest rates, a rebound in the housing market and improved purchasing power should lead to solid growth in domestic demand in 2016, but this should slow in 2017. Credit demand from SMEs is increasing as lending standards ease.

No inflationary pressures

Inflation should remain low in the near term and any rebound is likely to be modest. Despite the tightening of the labour market, collectively agreed wage increases were modest at a 1.5% annual rate over 21 months. Negotiators erred on the side of caution after the financial crisis.

Slow deficit reduction

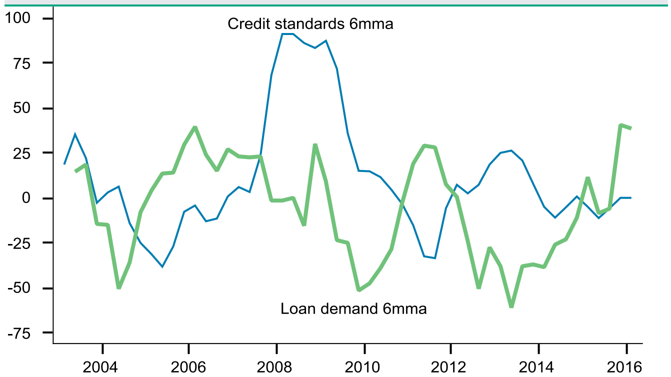
The 2016 budget will be cyclically neutral, as savings measures implemented by the coalition will just offset a significant reduction in income tax (EUR 5bn or 0.8% of GDP). In 2016, we expect the deficit to fall to 2% of GDP. The fall in gas revenues is slowing deficit reduction.

Where we are different

Our 2017 forecasts are more downbeat than those of either the market or the Dutch Centraal Planbureau (CPB). We expect consumption growth to slow rather than accelerate as the return of inflation pressure stalls real income growth in a low-wage environment.

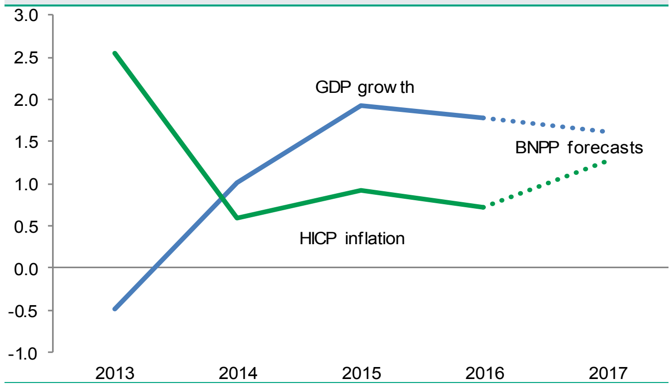
We expect growth to outperform the eurozone average over the forecast period. Part of this difference is due to a catch-up process following the malaise in the housing market, but the Dutch labour market is proving quite flexible, keeping unemployment on a downward track.

Chart 1: Corporate loan demand and credit standards (%)



Source: Dutch Central Bank, Macrobond, BNP Paribas

Chart 2: Growth and inflation forecasts



Source: Statistics Netherlands, Macrobond, BNP Paribas forecasts

Netherlands: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	-0.5	1.0	1.9	1.8	1.6
Dom. demand ex. stocks	-1.6	0.8	3.0	1.8	1.7
Private consumption	-1.4	0.0	1.6	1.9	1.4
Public consumption	0.1	0.3	0.0	0.4	0.2
Fixed investment	-4.4	3.5	10.2	3.3	3.9
Stocks (contrib. to growth)	-0.2	-0.1	-0.7	0.5	0.0
Exports	2.1	4.1	4.2	2.0	3.5
Imports	0.9	4.0	4.9	2.8	3.8
Industrial production	-1.1	1.1	1.4	0.9	1.3
Savings ratio (%)	7.3	8.2	8.9	9.6	9.5
Inflation & labour					
HICP	2.6	0.3	0.2	0.3	1.1
Core HICP	2.5	0.6	0.9	0.7	1.3
Contract wages	1.1	0.9	1.5	1.5	1.5
Employment	-0.7	-0.7	1.2	0.7	0.5
Unemployment rate (%)	5.8	7.3	7.4	6.9	6.9
External trade					
Trade balance (EUR bn)	46.8	51.0	47.7	46.2	46.5
Current account (EUR bn)	71.5	70.1	65.2	61.2	62.2
Current account (% of GDP)	11.0	10.6	9.6	8.7	8.5
Financial variables					
General govt. budget (EUR bn)	-14.6	-18.6	-14.3	-14.1	-13.1
General govt. budget (% of GDP)	-2.2	-2.8	-2.1	-2.0	-1.8
Primary budget (EUR bn)	-7.3	-12.6	-9.5	-10.0	-9.4
Primary budget (% of GDP)	-1.1	-1.9	-1.4	-1.4	-1.3
Gross govt. debt (% of GDP) (2)	68.1	68.9	67.5	66.1	65.0
Interest rates (2)					
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60
10-year bond yield (%)	2.23	0.67	0.79	-0.05	-0.05
Spread over Bund (bp)	33	13	16	15	15

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes, unless otherwise indicated

Source: Statistics Netherlands, Dutch Central Bank, BNP Paribas forecasts

Belgium: Long way to go

Consumption stumbles

Belgium's wage-moderation programme is holding back growth in disposable household income. This should slow down private consumption, with an anticipated uptick in exports, driven by improved competitiveness, the most likely candidate to pick up the slack.

Core inflation on track

With energy prices once again down significantly at the start of the year, persistent core inflation is keeping the HICP at around the level of the last two years. Additionally, the total headline inflation figure for 2017 will be upped significantly by a number of new and increased taxes.

Deficit stable below 3%

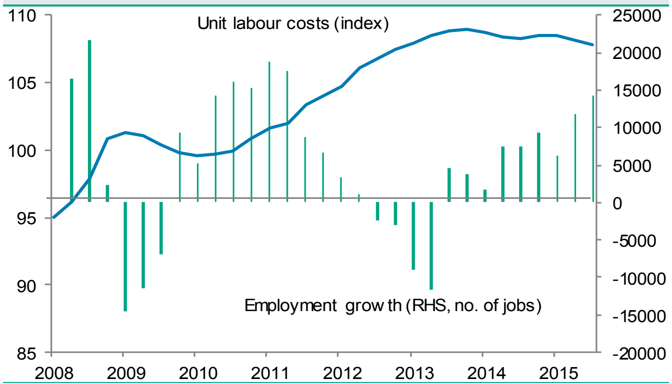
The government deficit for 2015 is expected to come in at slightly below the EU's 3% threshold. Budgetary progress in the coming years will most likely be driven by a lowering of interest charges, eventually freeing up budget space to repay some of the outstanding debt.

Where we are different

We expect the unemployment rate to stay above 8%, somewhat above consensus. Strong positive developments in the second half of last year will, we believe, be offset by inward migration, increasing the size of the active but unemployed population.

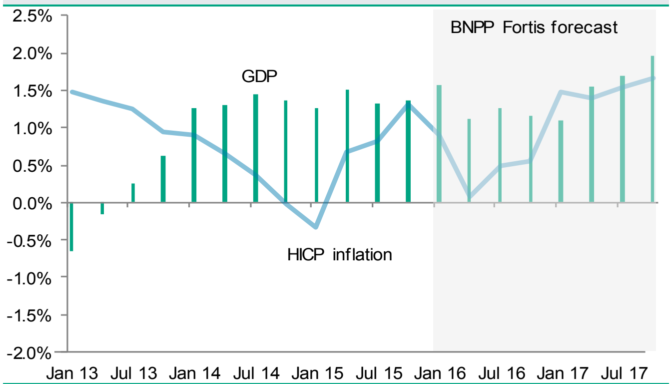
We are also above consensus for gross government debt in 2016. Some of the list of proposed tax-raising measures may well run into unexpected implementation costs that reduce their effectiveness.

Chart 1: Slow but positive growth in employment



Source: Macrobond, ECB, NBB, BNP Paribas Fortis

Chart 2: Growth and inflation forecasts (% y/y)



Source: NBB, BNP Paribas Fortis forecasts for 2016-17

Belgium: Economic forecasts

	2013	2014	2015 (2)	2016 (1)	2017 (1)
Components of growth					
Total GDP	0.3	1.1	1.4	1.3	1.6
Dom. demand ex stocks	0.0	1.9	1.3	0.8	1.4
Private consumption	0.3	0.9	1.6	1.1	1.3
Public consumption	1.1	1.0	0.3	0.4	0.4
Fixed investment	-1.7	7.0	1.8	0.5	2.4
Stocks (contrib. to growth)	-0.7	-0.7	0.1	-0.2	0.1
Exports	2.9	3.8	3.3	4.0	4.5
Imports	1.7	3.6	3.5	3.3	4.5
Industrial production	0.9	1.4	2.3	2.9	3.1
Savings ratio (%)	15.0	14.5	14.0	13.5	13.0
Inflation & labour					
HICP	1.2	0.5	0.6	0.5	1.6
Core HICP	1.4	1.5	1.6	1.3	1.4
Wages	2.5	0.8	0.0	0.4	1.9
Employment	-0.3	0.3	0.6	0.7	0.8
Unemployment rate (%)	8.4	8.5	8.3	8.2	8.1
External trade					
Trade balance (EUR bn)	15	23	19	20	20
Current account (EUR bn)	0	0	3	6	7
Current account (% of GDP)	0.1	0.1	0.8	1.4	1.7
Financial variables					
General govt. budget (EUR bn)	-11	-13	-11	-11	-11
General govt. budget (% of GDP)	-2.9	-3.2	-2.7	-2.7	-2.5
Primary budget (EUR bn)	1.0	-0.7	-0.2	-0.8	-0.4
Primary budget (% of GDP)	0.2	-0.2	-0.1	-0.2	-0.1
Gross govt. debt (% of GDP) (2)	104.4	106.6	106.9	107.6	106.7
Interest rates (2)					
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60
10-year bond yield (%)	2.55	1.04	1.01	0.15	0.15
Spread over Bund (bp)	63	50	38	35	35

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: ECB, Eurostat, Statistics Belgium, BNP Paribas Fortis forecasts

IMPORTANT DISCLOSURE:
This analysis has been produced by BNP Paribas Fortis SA/NV and has been reviewed, but not amended, by BNP Paribas. BNP Paribas SA is the majority shareholder of BNP Paribas Fortis SA/NV with a 99.93% stake. This analysis does not contain investment research recommendations.

Arne Maes

Austria: Fiscal bonanza

Pro-growth tax reform

Economic growth is likely to accelerate this year, thanks in large part to one-off effects from the budgetary package (0.7% of GDP) ahead of the 2017 election, which includes tax reforms (eg, cutting the tax rate on low wages), public spending on migrants and a house-building initiative.

Inflation to bounce back

Inflation was muffled in 2015, partly due to stringent entry regulations in the service sector, but is likely to bounce back in 2016 because of VAT hikes. As part of the tax reform, the lower rate of VAT will rise from 10% to 13% on several products.

Looser fiscal policy

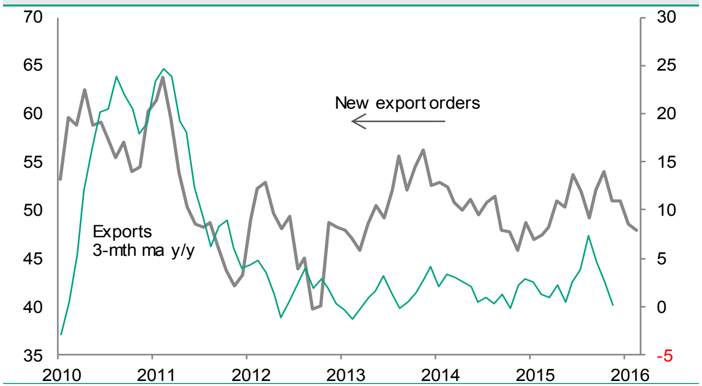
The tax reform should not endanger the government's target of a structural balance, but the deficit is likely to remain roughly unchanged, as the downward effect on public receipts should be offset by an expected rebound in economic activity.

Where we are different

Our growth forecast for 2016 is less optimistic than the market's. We expect Austria's growth to underperform and remain below potential, as one-third of its exports are to Germany and another third to non-EU28 countries.

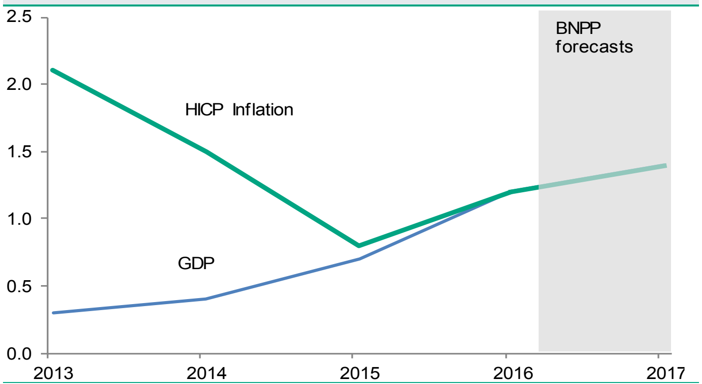
We are more pessimistic than the government regarding consolidation of public finances. As the European Court of Justice has dismissed Austria's appeal against a credit repayment guarantee issued to Bayern LB, we expect the deficit/GDP ratio to remain unchanged in 2016.

Chart 1: Exports and PMI manufacturing



Source: Statistics Austria, Markit, BNP Paribas

Chart 2: Growth and inflation (%)



Source: Statistics Austria, Markit, BNP Paribas

Austria: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	0.3	0.4	0.8	1.2	1.4
Dom. demand ex stocks	0.1	0.7	0.2	1.1	1.2
Private consumption	0.1	0.0	0.7	1.0	1.0
Public consumption	0.6	0.8	0.5	0.5	0.6
Fixed investment	-0.3	-0.2	-1.9	2.8	3.2
Stocks (cont. to growth)	-0.5	-0.3	0.0	0.0	0.0
Exports	0.8	2.1	3.4	3.7	3.7
Imports	0.0	1.3	4.3	3.9	3.7
Industrial production	0.7	-0.5	0.5	1.0	1.5
Savings ratio (%)	7.3	7.5	7.9	8.0	8.2
Inflation & labour					
HICP	2.1	1.5	0.8	1.2	1.4
Core HICP	2.2	1.7	1.7	1.7	2.0
Employment	0.6	0.7	1.0	0.9	0.9
Unemployment rate (%)	5.4	5.6	5.8	6.1	6.1
External trade					
Trade balance (EUR bn)	-0.9	1.6	4.7	4.8	5.0
Current account (EUR bn)	6.8	6.8	7.0	7.1	8.1
Current account (% of GDP)	2.1	2.1	2.1	2.2	2.3
Financial variables (1)					
General govt. budget (EUR bn)	-4.2	-8.8	-5.7	-5.9	-6.1
General govt. budget (% of GDP)	-1.3	-2.7	-1.7	-1.7	-1.3
Primary budget (EUR bn)	2.8	-1.0	-0.8	-0.3	-0.3
Primary budget (% of GDP)	0.9	-0.3	-0.2	-0.1	-0.1
Gross govt. debt (% of GDP) (2)	80.8	84.2	85.9	84.9	83.4
Interest rates (2)					
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60
10-year bond yield (%)	2.28	0.71	0.91	0.05	0.05
Spread over Bund (bp)	38	17	28	25	25

Footnotes: (1) forecast or preliminary data, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: Statistics Austria, central bank, Eurostat, ECB, BNP Paribas forecasts

Portugal: More nerves

Steady but modest growth

Indicators suggest the economy has plateaued at a growth rate of 1.5% in 2015; we expect similar growth rates in 2016 and 2017 as potential growth increases. Domestic demand should continue to be the engine, as consumers remain upbeat and fiscal policy is a bit looser.

Some underlying pressure

We believe headline inflation will remain subdued in 2016 and rebound somewhat in 2017. Portuguese end-2015 services inflation was 0.5pp above the eurozone average and has averaged 1.4% y/y over the past 18 months, so price pressures are not completely absent.

Fiscal discipline in doubt

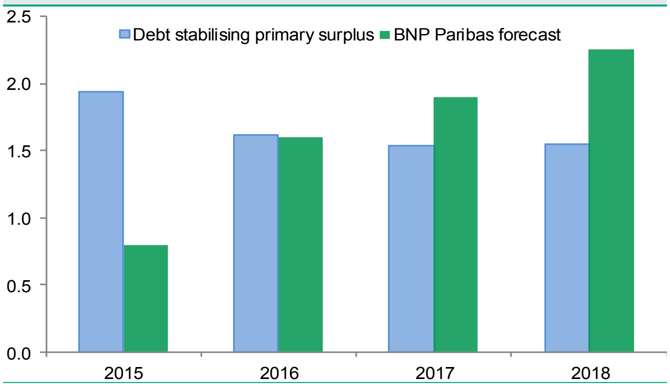
There are market concerns regarding the new government's fiscal discipline. Even had the old coalition remained in power, the debt ratio would have remained elevated for an extended period, but there are doubts that the new administration can make the tough decisions required.

Where we are different

Our growth forecast is broadly in line with the market's, but it falls short of the government's expectations. There have been supply-side constraints to growth through capital-stock erosion and a declining labour force. As these wane, favourable tailwinds are also likely to fade.

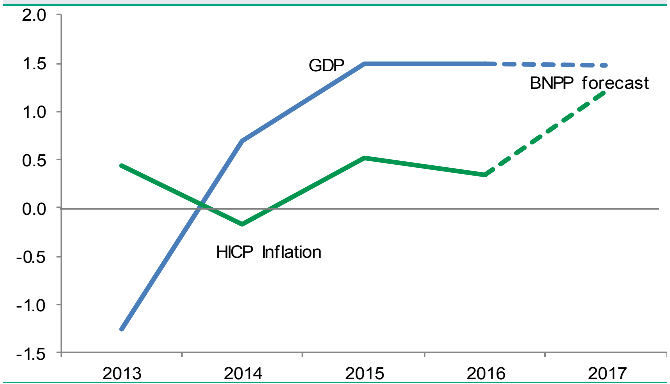
We are less concerned than the market regarding the near-term outlook, as a downgrade by DBRS would be needed for a fundamental re-pricing of Portuguese bonds and the agency has said it is happy with its rating. Accordingly, we see potential for spreads to narrow from here.

Chart 1: Debt-stabilising primary surplus (% of GDP)



Source: INE, Macrobond, BNP Paribas

Chart 2: GDP and inflation forecasts (%)



Source: INE, Macrobond, BNP Paribas forecasts

Portugal: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	-1.3	0.7	1.5	1.5	1.5
Dom. demand ex. stocks	-1.9	1.8	2.1	1.7	1.8
Private consumption	-1.4	1.6	2.1	1.9	1.7
Public consumption	-2.0	-0.5	0.3	0.3	0.7
Fixed investment	-5.1	5.5	3.9	2.3	3.3
Stocks (contrib. to growth)	0.0	0.0	0.0	0.1	0.1
Exports	7.0	3.9	4.9	2.3	3.6
Imports	4.7	7.2	7.0	3.0	4.3
Industrial production	0.9	1.8	2.6	2.2	2.0
Savings ratio (%)	14.8	15.6	15.2	15.0	14.5
Inflation & labour					
HICP	0.4	-0.2	0.5	0.3	1.2
Core HICP	0.1	0.2	0.7	0.6	0.9
Employment	-2.6	1.6	1.1	1.1	0.9
Unemployment rate (%)	16.2	13.9	12.9	12.3	11.8
External trade					
Trade balance (EUR bn)	-8.1	-9.3	-10.1	-9.9	-9.4
Current account (EUR bn)	0.9	1.0	1.8	2.2	2.7
Current account (% of GDP)	0.5	0.6	1.0	1.2	1.4
Financial variables					
General govt. budget (EUR bn)	-8.1	-12.6	-7.4	-5.5	-4.8
General govt. budget (% of GDP) (2)	-4.8	-7.3	-4.1	-3.0	-2.5
Primary budget (EUR bn)	0.2	-4.0	1.4	3.0	3.6
Primary budget (% of GDP)	0.1	-2.3	0.8	1.6	1.9
Gross govt. debt (% of GDP) (3)	129.0	130.2	128.8	127.9	126.0
Interest rates (3)					
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60
10-year bond yield (%)	6.04	2.69	2.52	2.30	2.05
Spread over Bund (bp)	414	215	189	250	225

Footnotes: (1) forecast, (2) includes one-off transfers, (3) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: Bank of Portugal, ECB, Eurostat, INE, BNP Paribas forecasts

Finland: Endless economic winter

Weak growth

Despite a likely rebound in investment in 2016, growth should remain weak due to the fading effect of last year's renegotiation of housing loans to include interest-only periods, while trade to Russia continues to suffer because of EU sanctions and Russia's severe economic problems.

Higher taxes lift inflation

Thanks to low energy prices, inflation will continue to be exceptionally low. However, despite wage restraint, unit labour costs continue to rise because of sluggish productivity growth. Moreover, increases in indirect taxation should add 0.3pp to inflation over the forecast period.

But lower taxes on wages

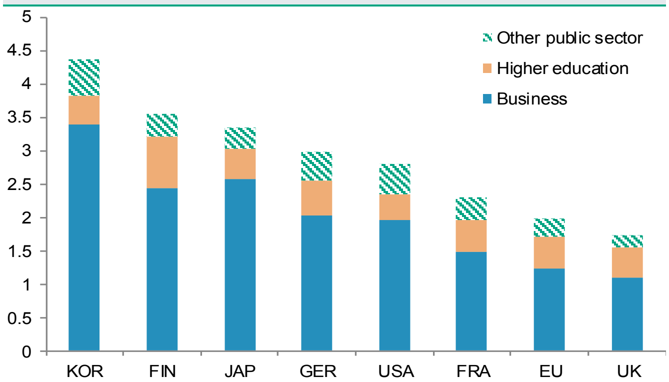
A cut in earnings-related taxation will be offset by higher indirect taxes. An overhaul of labour-market regulations should lower producer costs. Finland remains a top performer in innovation, with a EUR 1.6bn programme to foster investment in clean technologies, digitalisation and health.

Where we are different

Contrary to the market consensus, we do not expect the economy to recover quickly. In particular, exports are likely to disappoint, in view of the deterioration in the external environment and weak global investment demand.

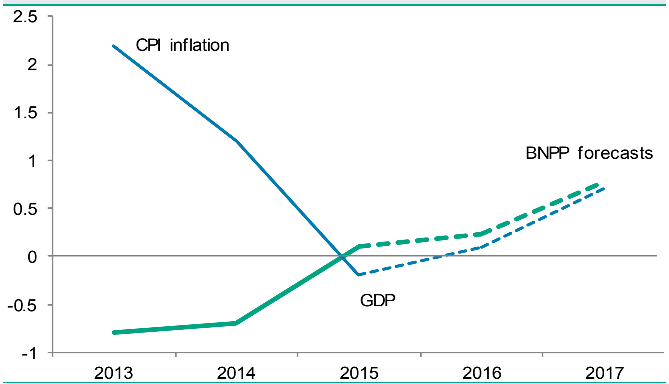
Moreover, the impact of the labour-market reforms should be limited. First, labour costs are of limited importance for Finland's relatively large ICT sector. Second, the fall in hourly wage costs may weigh on domestic spending in the short term.

Chart 1: R&D spending (% of GDP)



Source: OECD (2014), BNP Paribas

Chart 2: Growth and inflation (%)



Source: Statistics Finland, BNP Paribas forecasts (dotted lines)

Finland: Economic forecasts

	2013	2014	2015	2016 [1]	2017 [1]
Components of growth					
Total GDP	-0.8	-0.7	0.1	0.2	0.8
Dom. demand ex stocks	-1.1	-0.3	0.7	1.0	0.9
Private consumption	-0.5	0.6	1.3	0.8	0.5
Public consumption	1.1	-0.3	0.1	0.1	0.1
Fixed investment	-4.9	-2.6	-0.1	2.5	3.0
Stocks (contrib. to growth)	0.0	0.0	-0.1	-0.1	0.3
Exports	1.1	-0.9	-2.1	0.5	2.0
Imports	0.5	0.0	-2.8	2.1	3.0
Industrial production	-3.2	-2.1	-1.7	-0.2	1.5
Savings ratio (%)	2.0	0.4	0.1	0.1	0.1
Inflation & labour					
HICP	2.2	1.2	-0.2	0.1	0.7
Core HICP	1.8	1.6	0.8	0.6	0.8
Employment	-1.1	-0.4	-0.6	0.1	0.2
Unemployment rate (%)	8.2	8.7	9.4	9.6	9.7
External trade					
Trade balance (EUR bn)	-2.3	-1.8	0.0	-0.6	-1.5
Current account (EUR bn)	-3.4	-1.9	-0.2	-1.5	-2.2
Current account (% of GDP)	-1.7	-0.9	-0.1	-0.7	-1.0
Financial variables					
General govt. budget (EUR bn)	-5.1	-6.4	-6.4	-6.1	-6.0
General govt. budget (% of GDP)	-2.5	-3.2	-3.1	-2.9	-2.8
Primary budget (EUR bn)	-2.6	-3.9	-3.9	-3.6	-3.4
Primary budget (% of GDP)	-1.3	-1.9	-1.9	-1.7	-1.6
Gross govt. debt (% of GDP) [2]	55.8	59.3	62.0	64.0	65.5
Interest rates [2]					
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60
10-year bond yield (%)	2.03	0.89	0.86	0.05	0.05
Spread over Bund (bp)	13	35	23	25	25

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: Central bank, Eurostat, ECB, Statistics Finland, BNP Paribas forecasts

Raymond Van der Putten

Ireland: Island life

Still scope for solid growth

Growth is likely to be in the 4-5% range in 2016 and 2017, as consumption remains robust and investment growth continues. Consumption of services and residential investment have ample scope for expansion, but financing conditions are still restricting residential building.

Strong underlying inflation

The headline inflation rate will probably be weighed down by oil prices in 2016, but this will mask robust services inflation, which averaged 3% in 2015 and is likely to register similar rates in the years ahead. Inflation should be close to 2% in 2017.

Policy space returning

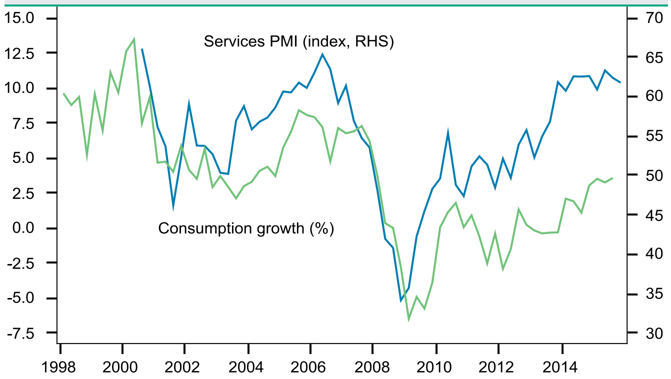
With fiscal space likely to be around EUR 8bn or EUR 1.6bn per year (0.8% of GDP) during the lifetime of the next government (2016-2021), fiscal policy will remain expansionary. This is the total amount of fiscal expansion possible under European fiscal rules.

Where we are different

Our growth and inflation forecasts, particularly for 2017, are more upbeat than the market's, but we still see the economy in a process of normalisation. It is important house building gets back to normal levels and for banks to continue to deal with non-performing loans.

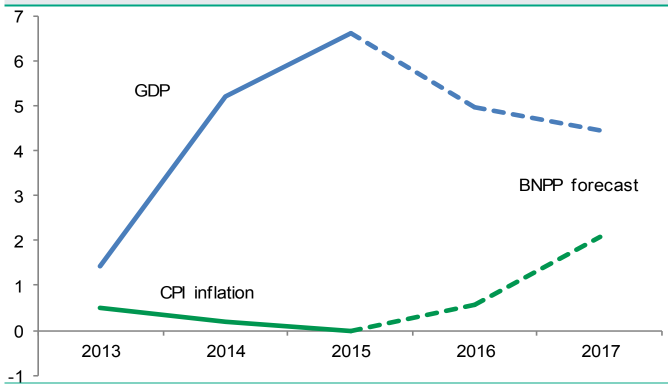
Our debt-ratio forecasts are also more optimistic than the market's, but we see potential for even greater debt reduction. A partial sale of the state's stake in AIB bank could trim the ratio by another 1.5pp. A European ruling might also force Apple to pay substantial back taxes.

Chart 1: Consumption growth and services PMI



Source: CSO, Markit, Macrobond, BNP Paribas

Chart 2: Growth and inflation forecasts (%)



Source: CSO, Macrobond, BNP Paribas forecasts

Ireland: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	1.4	5.2	6.6	5.0	4.5
Dom. demand ex stocks	-1.4	5.1	8.5	6.7	4.0
Private consumption	-0.3	2.0	3.2	2.9	2.2
Public consumption	1.3	4.5	1.1	1.7	2.2
Fixed investment	-6.2	14.1	26.9	17.0	8.0
Stocks (contrib. to growth)	-0.1	0.1	0.1	0.1	0.1
Exports	2.5	12.1	13.4	8.9	5.8
Imports	0.0	14.7	16.4	10.4	5.6
Industrial production	-2.6	20.3	16.1	6.1	3.9
Inflation & labour					
CPI	0.5	0.2	0.0	0.6	2.1
HICP	0.5	0.3	0.0	0.6	2.1
Core HICP	0.5	0.8	1.2	1.6	2.2
Employment	2.4	2.9	2.8	2.6	2.4
Unemployment rate (%)	13.1	11.2	9.4	8.4	7.5
External trade					
Trade balance (EUR bn)	36.2	45.9	46.2	47.2	48.1
Current account (EUR bn)	7.6	11.5	11.1	11.4	11.6
Current account (% of GDP)	4.4	6.2	5.6	5.4	5.3
Financial variables					
General govt. budget (EUR bn)	-10.1	-7.5	-3.9	-2.5	-1.2
General govt. budget (% of GDP)	-5.6	-4.0	-1.9	-1.1	-0.5
Primary budget (EUR bn)	-3.8	-0.1	3.4	4.7	6.4
Primary budget (% of GDP)	-2.1	-0.1	1.6	2.1	2.7
Gross govt. debt (% of GDP) (2)	120.0	107.5	97.1	90.0	84.3
Interest rates (2)					
3-month rate (%)	0.29	0.08	-0.13	-0.60	-0.60
10-year bond yield (%)	3.43	1.39	1.14	0.40	0.30
Spread over Bund (bp)	153	85	51	60	50

Footnotes: (1) Forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated.

Source: BNP Paribas forecasts, CSO, Central Bank of Ireland, ECB, Eurostat

Greece: Calmer waters

GDP likely to grow in H2

As uncertainty has lifted around Greece's future in its rescue programme, sentiment has rebounded. Leading indicators, however, are still consistent with a further contraction in activity this year. We expect GDP to fall further in 2016, before returning to growth next year.

Fiscal consumption drag

Private consumption is likely to be weighed down by measures to consolidate fiscal balances and still wide slack in the labour market, offsetting gains from lower inflation; on the plus side, a stronger fall in imports than exports should see a positive contribution from net trade to GDP.

Investment to rebound

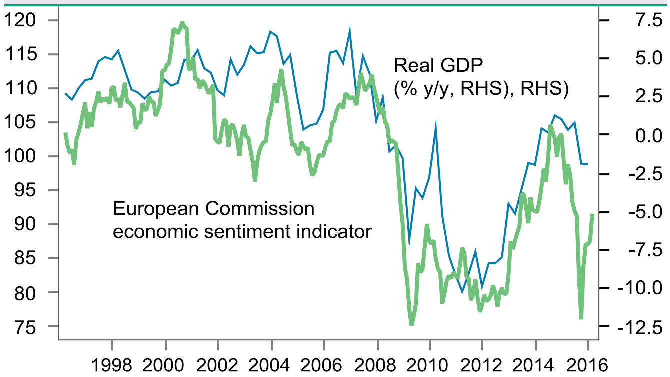
Renewed acceleration of the fall in investment in 2015 is likely to have come to a halt. Recapitalisation of the banks and the likely easing of capital controls during 2016 bode well for a rebound in the supply of credit and investment.

Where we are different

The market became nervous about the outcome of the first review of the EU's third economic-adjustment programme for Greece in light of recent negative headlines. We continue to believe the review will end in a positive outcome, but this will take time.

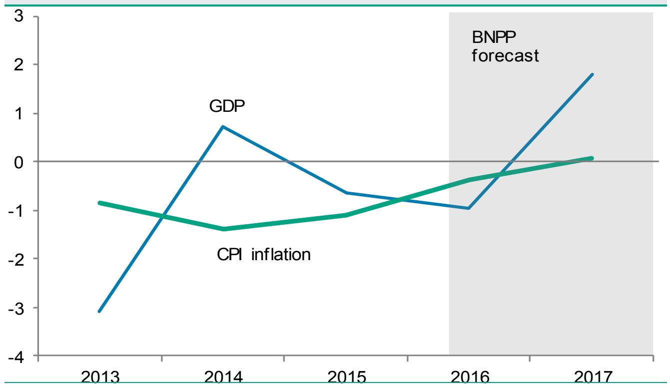
Even once the review has been closed, implementation risks will persist, as further socially unpalatable reforms are needed and the government has only a slim parliamentary majority. This highlights the risk of early elections before the programme ends in 2018.

Chart 1: Economic sentiment and real GDP growth



Source: Macrobond, European Commission, Eurostat, BNP Paribas

Chart 2: GDP and inflation forecasts (% y/y)



Source: Macrobond, Greek statistics office, BNP Paribas forecasts

Greece: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	-3.1	0.7	-0.7	-1.0	1.8
Dom. demand ex stocks	-3.9	-0.4	-0.6	-1.7	1.4
Private consumption	-2.5	0.7	0.2	-1.5	1.5
Public consumption	-5.3	-2.3	0.9	-0.6	0.2
Fixed investment	-9.2	-2.5	-7.6	-4.0	3.8
Stocks (contrib. to growth)	-0.3	1.4	-1.9	0.1	0.2
Exports	1.7	7.4	-4.8	-1.0	1.8
Imports	-2.9	7.9	-9.9	-1.8	1.3
Industrial production	-3.1	-2.2	1.0	2.2	3.2
Inflation & labour					
HICP	-0.8	-1.4	-1.1	-0.4	0.1
Core HICP	-2.4	-1.5	-0.4	-0.8	-1.0
Employment	-4.9	0.7	1.8	1.0	1.6
Unemployment rate (%)	27.5	26.5	25.0	25.1	24.8
External trade					
Trade balance (EUR bn)	-13.1	-15.4	-14.2	-13.7	-13.1
Current account (EUR bn)	-3.7	-3.8	-2.3	-1.7	-1.4
Current account (% of GDP)	-2.0	-2.1	-1.3	-1.0	-0.8
Financial variables					
General govt. budget (EUR bn)	-8.1	-6.4	-13.3	-6.1	-4.2
General govt. budget (% of GDP)	-4.5	-3.6	-7.6	-3.5	-2.4
Primary budget (EUR bn)	-0.9	0.7	-6.1	0.7	2.6
Primary budget (% of GDP)	-0.5	0.4	-3.5	0.4	1.5
Gross govt. debt (% of GDP) (2)	177.0	178.6	179.0	185.4	184.6

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas, National Bank of Greece, Eurostat, ECB

Switzerland: Growing pains

Struggling to grow

As a small, very open economy (with an export-to-GDP ratio of 70%), Switzerland is exposed to swings in both external demand and the exchange rate. With unemployment rising and consumer sentiment weak, economic growth rates have been surprising on the downside.

Sub-zero inflation

Consumer price inflation is well below zero on both a headline and core basis, with the former dropping to its lowest level in almost half a century during 2015. Oil-price developments and negative import-price inflation point to more of the same in the period ahead.

Currency concern

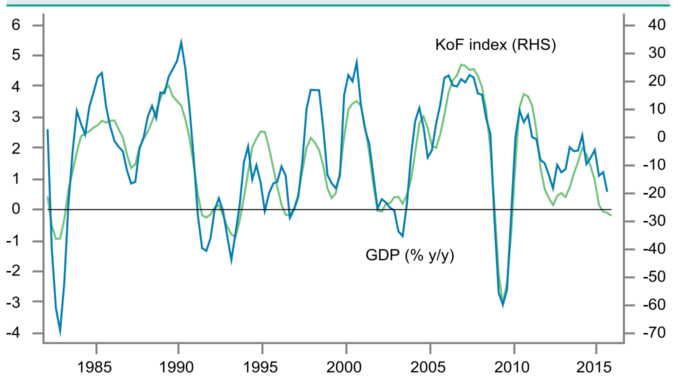
The currency has weakened against the EUR and on a trade-weighted basis. While the central bank's accumulation of foreign-exchange reserves has slowed, they are exceptionally high still, at around 70% of GDP. Pressure will build again, given market tensions and ECB policy easing.

Where we are different

Growth looks set to fall short of market consensus expectations of 1.2% for 2016 and for 1.7% 2017. We forecast a return to positive quarter-on-quarter growth rates in GDP this year, but with key export markets in Europe to slow, the pace of recovery will disappoint.

Inflation expectations are at risk of becoming unanchored as sub-zero inflation persists. Our forecast of aggressive ECB easing means we see a higher chance than most forecasters that the Swiss central bank will be forced to lower its policy rates further during 2016.

Chart 1: Business sentiment signals weak growth



Source: Macrobond, BNP Paribas

Chart 2:Growth and inflation forecasts (% y/y)

Source: Macrobond, BNP Paribas forecasts (dotted line)

Switzerland: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	1.8	1.9	0.7	1.0	1.5
Dom. demand ex stocks	1.9	1.5	1.4	1.2	1.3
Private consumption	2.2	1.3	1.2	1.3	1.1
Public consumption	1.3	1.3	2.9	1.9	1.6
Fixed investment	1.3	2.1	1.3	0.9	1.7
Stocks (cont. to growth)	-2.5	0.7	-0.3	-1.3	0.0
Exports	15.2	-6.9	1.1	4.2	3.8
Imports	13.5	-8.1	1.8	3.0	4.2
Industrial production	0.8	1.3	-1.9	0.4	1.9
Savings ratio (%)	18.1	17.8	17.8	17.6	17.4
Inflation					
CPI	-0.2	0.0	-1.1	-0.9	0.2
CPI (ex-petrol)	-0.1	0.1	-0.5	-0.5	-0.2
Nominal wages	0.7	0.8	0.6	0.4	0.6
Unemployment rate (%)	3.2	3.2	3.4	3.5	3.6
Financial variables (1)					
Current account (CHF bn)	70.8	56.7	75.6	74.9	68.9
Current account (% of GDP)	11.1	8.8	11.6	11.3	10.2
General govt. balance (CHF bn)	-2.1	-1.3	-1.0	-0.6	0.5
General govt. balance (% of GDP)	-0.3	-0.2	-0.2	-0.1	0.1
Primary budget (% of GDP)	0.3	0.4	0.2	0.3	0.5
Gross govt. debt (% of GDP) (2)	34.6	34.5	34.7	34.8	34.7
Interest & FX rates (2)					
3-month rate (%)	0.02	-0.06	-0.76	-0.80	-0.80
10-year bond yield (%)	1.25	0.36	-0.05	-0.60	-0.60
Spread over Bund (bp)	-65	-18	-68	-40	-40
EURCHF	1.23	1.20	1.08	1.16	1.20

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Swiss National Bank, statistical office, BNP Paribas forecasts

UK: The waiting game

Domestic resilience

Growth has slowed, but we expect it to remain solid at around its trend pace. Loose monetary policy and low imported inflation are supporting domestic demand and offsetting some of the impact of fiscal tightening and persistently soft global growth.

Oil and FX stifle inflation

The labour market looks to have little, if any, spare capacity, and growth in unit labour costs has picked up accordingly, which will feed through to service-sector prices. However, past sterling appreciation and the slump in oil prices mean inflation should remain low until early 2017.

Rates on hold until 2017

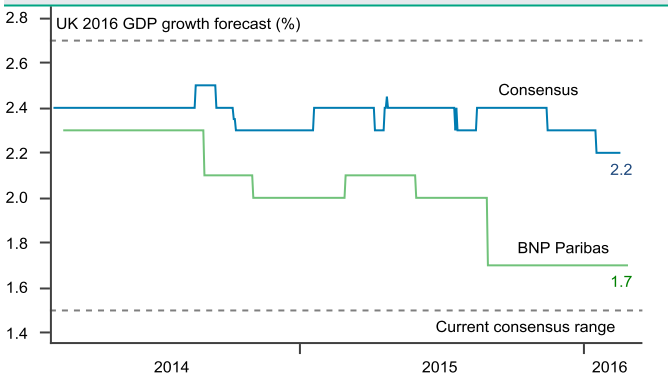
With growth around trend and inflation averaging only 0.5% in 2016, we do not expect the Bank of England to raise rates this year. The first hike is likely in early 2017, when there is more evidence of inflation picking up and a re-acceleration in nominal wage growth.

Where we are different

Our 2016 growth forecast of 1.7% is about 0.5pp below the consensus, but is in line with our estimate of trend growth. We believe the rapid fall in unemployment reflects trend growth of below 2.0% in recent years.

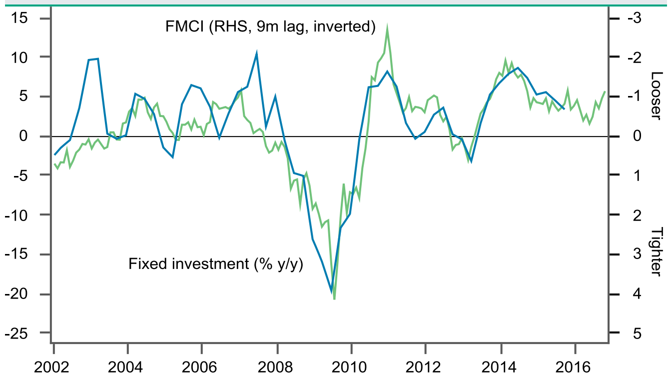
The consensus is for a first rate hike by the end of 2016. This is on the early side, in our view, considering low inflation, growth at trend and the uncertain state of the global economy. Moreover, with the Fed on hold, we see only two 25bp hikes by the Bank of England in 2017.

Chart 1: GDP forecast versus consensus



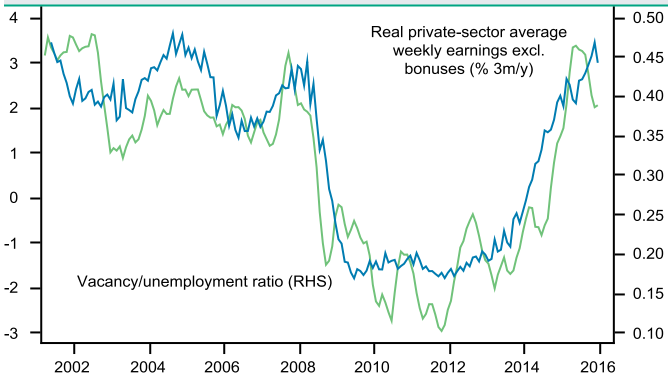
Source: Macrobond, Bloomberg, BNP Paribas

Chart 2: Fixed investment vs financial conditions



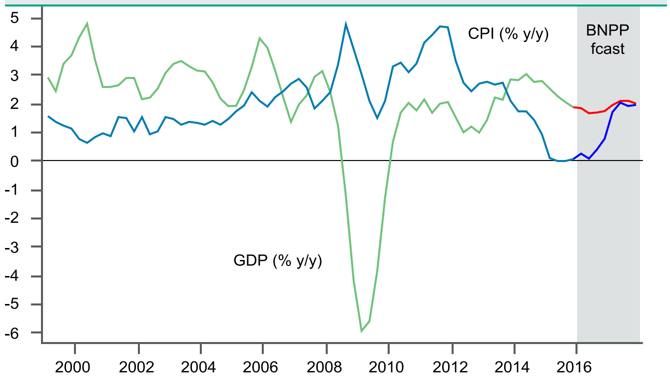
Source: Macrobond, Office for National Statistics, BNP Paribas

Chart 3: Tightening labour market



Source: Macrobond, Office for National Statistics, BNP Paribas

Chart 4: Solid growth, subdued inflation



Source: Macrobond, Office for National Statistics, BNP Paribas

UK: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-	-	0.4	0.5	0.4	0.5	0.4	0.4	0.5	0.5
GDP	2.2	2.9	2.2	1.7	2.0	2.5	2.3	2.1	1.8	1.8	1.7	1.7	1.8
Domestic demand ex stocks	1.7	3.2	2.8	2.0	2.2	2.8	2.7	2.8	3.0	2.6	1.9	1.7	1.8
Private consumption	1.9	2.5	2.8	2.5	2.1	2.5	2.7	2.9	3.2	3.0	2.6	2.4	2.2
Public consumption	0.5	2.5	1.8	1.2	1.1	1.3	1.5	1.8	2.5	2.1	1.3	0.9	0.7
Investment	2.6	7.3	4.1	1.0	4.1	5.6	4.5	3.4	3.1	1.6	0.2	0.3	2.0
Stocks (contrib. to growth, q/q)	0.7	0.2	-0.5	0.3	0.1	0.3	-1.8	0.5	0.4	0.1	0.1	0.0	0.0
Exports	1.2	1.2	5.2	1.1	2.7	5.4	7.1	6.3	2.1	1.8	-0.2	0.8	1.9
Imports	2.8	2.4	5.9	2.8	3.7	7.5	5.6	6.3	4.1	1.0	4.4	2.7	3.2
Services output	2.8	3.3	2.5	2.1	2.2	3.0	2.5	2.4	2.2	2.2	2.1	2.0	1.9
Manufacturing production	-1.1	2.7	-0.1	-0.4	0.8	1.2	0.1	-0.9	-1.0	-0.9	-0.6	-0.1	0.1

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
RPI	3.0	2.4	1.0	1.3	2.8	1.0	1.0	1.0	1.0	1.3	1.1	1.3	1.6
RPIX	3.1	2.4	1.0	1.4	2.6	1.0	1.0	1.0	1.1	1.4	1.2	1.4	1.7
CPI	2.6	1.5	0.0	0.4	1.9	0.1	0.0	0.0	0.1	0.2	0.1	0.4	0.8
Core CPI	2.1	1.7	1.1	1.3	1.8	1.3	0.8	1.0	1.3	1.3	1.4	1.4	1.4
Employment	1.2	2.3	1.5	1.3	0.8	1.8	1.2	1.4	1.7	1.1	1.7	1.4	1.0
Unemployment rate (ILO, %)	7.6	6.2	5.4	5.0	4.9	5.5	5.6	5.3	5.0	4.9	4.9	5.0	5.0
Headline avg. earnings	1.2	1.3	2.4	1.9	3.6	2.3	2.6	3.0	1.8	1.8	1.7	1.8	2.5
Avg. earnings ex-bonuses	0.9	1.3	2.4	1.8	3.2	2.3	2.8	2.4	1.9	1.6	1.6	1.9	2.3

	Year					2015				2016			
External trade	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Trade balance (GBP bn, sa)	-34.2	-34.4	-35.8	-42.2	-34.5	-	-	-	-	-	-	-	-
Current account (GBP bn, sa)	-77.9	-92.5	-84.7	-93.2	-76.6	-	-	-	-	-	-	-	-
Current account (% of GDP)	-4.5	-5.1	-4.5	-4.8	-3.8	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3 (1)	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
PSNB (GBP bn, FY)	100.9	89.2	78.1	59.0	45.4	-	-	-	-	-	-	-	-
PSNB (% of GDP, FY)	5.7	4.9	4.1	3.0	2.2	-	-	-	-	-	-	-	-
Primary budget (% of GDP, FY)	-4.0	-3.4	-2.6	-1.4	-0.5	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	87.9	88.4	89.6	90.1	89.3	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest & FX rates (2)													
Bank rate (%)	0.50	0.50	0.50	0.50	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month rate (%)	0.53	0.56	0.59	0.75	1.25	0.57	0.58	0.58	0.59	0.75	0.75	0.75	0.75
2-year rate (%)	0.57	0.53	0.65	0.70	1.05	0.41	0.74	0.56	0.65	0.40	0.50	0.55	0.70
10-year rate (%)	3.03	1.79	1.96	1.50	1.80	1.56	2.03	1.77	1.96	1.40	1.40	1.47	1.50
Spread over Bund (bp)	109	125	133	170	200	138	126	118	133	115	110	147	170
EURGBP	0.83	0.78	0.74	0.72	0.68	0.72	0.71	0.74	0.74	0.77	0.77	0.74	0.72
GBPUSD	1.66	1.56	1.47	1.58	1.54	1.48	1.57	1.51	1.47	1.48	1.51	1.55	1.58

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage unless otherwise indicated
Source: Bank of England, Office for National Statistics, Office for Budgetary Responsibility, UK Treasury, BNP Paribas forecasts

Sweden: Still sweating

Brisk growth

Aggressive central-bank policy action, which has already kept the exchange rate soft for a prolonged period, should result in robust growth in the coming years. The large flow of migrants means that the unemployment rate is set to remain sticky, however.

Energy damping inflation

Despite the scorching growth rate, inflation is likely to remain soft in the short run, weighed down by low energy prices. When this effect wears off, the headline rate should eventually start to pick up and could be close to 1.5% by the end of 2016.

More monetary easing

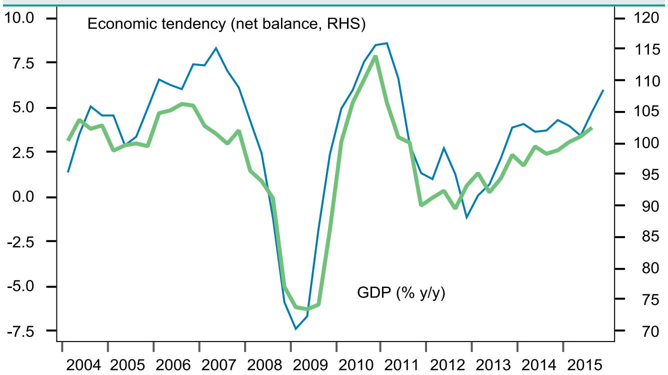
Still, the central bank is likely to view the coming months' inflation shortfall unfavourably, owing to the potential impact on inflation expectations, and so it stands ready to ease further. Strong growth should ease any fiscal pressures associated with high immigration.

Where we are different

Our inflation forecast is lower than the market's, but some forecasts may not yet reflect current oil prices. We think the Riksbank will remain poised to ease until an uptick in inflation becomes more apparent, despite increasing calls for policy restraint.

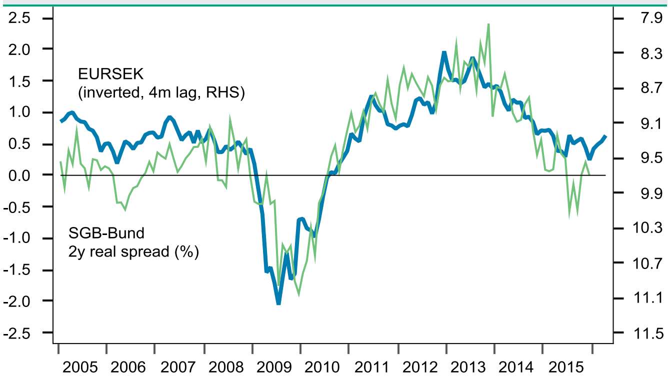
House prices and household debt are rising fast in Sweden and affordability metrics are looking increasingly stretched. This leaves Swedish households and banks exposed to a change in sentiment; recent experience has again shown us that this can happen rapidly.

Chart 1: Economic tendency indicator and GDP



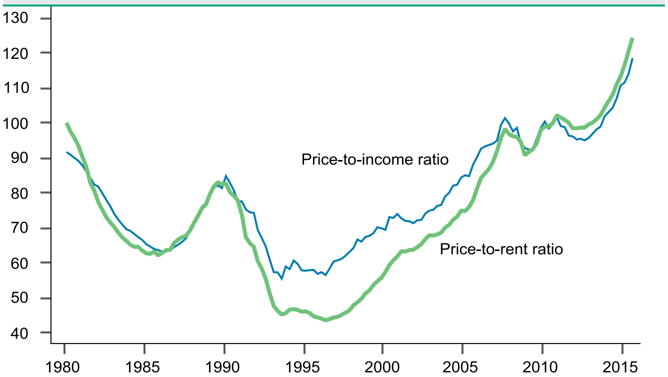
Source: Konjunkturinstitutet, Statistics Sweden, Macrobond, BNP Paribas

Chart 2: EURSEK and 2y yield differential to Germany



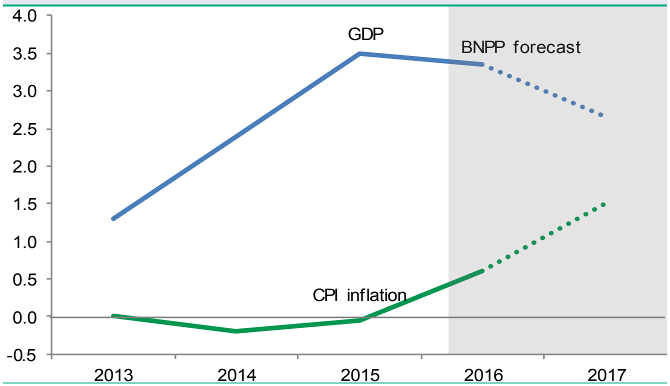
Source: Macrobond, BNP Paribas

Chart 3: House-price affordability ratios (index)



Source: OECD, Macrobond, BNP Paribas

Chart 4: Growth and inflation forecasts (%)



Source: Statistics Sweden, BNP Paribas

Sweden: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-		0.8	1.0	0.8	1.0	0.9	0.7	0.7	0.8
GDP	1.3	2.4	3.5	3.3	2.7	3.1	3.4	3.9	3.7	3.7	3.4	3.3	3.1
Domestic demand ex stocks	1.1	3.3	3.3	3.0	2.4	3.5	3.4	3.6	2.7	3.0	3.0	3.1	2.9
Private consumption	2.0	2.3	2.3	2.5	1.9	2.3	1.9	2.8	2.2	2.6	2.6	2.4	2.2
Public consumption	0.8	1.6	1.7	2.5	2.5	1.9	2.0	1.4	1.4	2.1	2.3	2.8	2.8
Fixed investment	0.6	7.7	7.0	4.6	3.3	7.5	7.9	7.6	5.3	4.7	4.7	4.6	4.4
Exports	-0.8	3.7	4.6	5.1	3.5	4.3	3.9	5.7	4.4	5.6	5.9	4.7	4.3
Imports	-0.2	6.4	4.1	4.7	3.0	5.6	3.6	5.2	2.2	4.6	5.7	4.4	4.1
Industrial production	-4.1	-2.1	1.9	4.3	2.6	-2.4	2.6	2.3	5.2	5.7	5.7	3.5	2.3

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	0.0	-0.2	0.0	0.6	1.5	0.0	-0.2	-0.1	0.1	0.2	0.3	0.7	1.3
CPIF	0.9	0.5	0.9	1.0	1.4	0.8	0.8	0.9	1.0	0.9	0.8	0.9	1.3
Wages & salaries/hour	2.1	1.8	3.1	2.5	2.2	3.0	3.3	3.6	2.7	2.6	2.4	2.4	2.5
Employment	0.6	1.6	0.9	1.5	1.7	1.4	0.7	0.5	1.1	1.2	1.8	1.5	1.5
Unemployment rate (nsa, %)	8.0	7.9	7.8	7.5	7.3	8.0	7.8	7.6	7.6	7.5	7.5	7.4	7.4

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (SEK bn)	44.9	12.0	31.8	42.4	44.8	-	-	-	-	-	-	-	-
Current account (SEK bn)	242	224	286	341	374	-	-	-	-	-	-	-	-
Current account (% of GDP)	6.4	5.7	6.8	7.7	8.1	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
General govt. budget (% of GDP)	-1.4	-1.9	-1.4	-1.2	-1.0	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-1.4	-2.0	-1.6	-1.4	-1.1	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	41.5	41.7	41.3	40.2	39.1	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest & FX rates (2)													
Repo rate (%)	1.00	0.00	-0.35	-0.50	-0.05	-0.25	-0.25	-0.35	-0.35	-0.50	-0.50	-0.50	-0.50
3-month rate (%)	0.94	0.15	-0.29	-0.45	0.15	-0.07	-0.22	-0.30	-0.29	-0.45	-0.45	-0.45	-0.45
10-year bond yield (%)	2.53	0.84	0.99	0.10	0.30	0.41	0.97	0.70	0.99	0.54	0.50	0.20	0.10
Spread over Bund (bp)	58	30	36	30	50	23	20	11	36	29	20	20	30
EURSEK	8.85	9.48	9.16	8.90	8.70	9.26	9.25	9.36	9.16	9.40	9.20	9.00	8.90
USDSEK	6.44	7.83	8.43	7.81	8.29	8.62	8.29	8.39	8.43	8.25	7.93	7.83	7.81

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Riksbank, Statistics Sweden, BNP Paribas forecasts

Norway: Oil barren

Oil inflicts more pain

Another leg down in the price of oil spells even more trouble for Norway's oil industry. The weakness in the exchange rate and the fiscal stimulus provided by the government will not be enough to prevent a further slowdown in 2016.

Lower core inflation

The inflation rate has been supported by exchange-rate depreciation. However, as weakness in the economy leads to increased slack, core inflation can be expected to trend downwards over our forecast period.

More policy stimulus

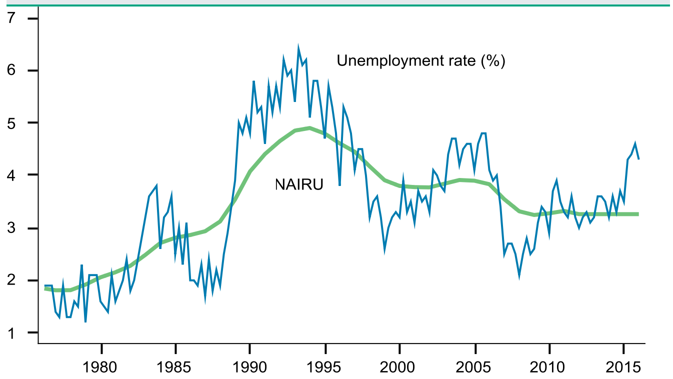
Fiscal policy is likely to remain stimulative as the government seeks to support the economy. Further monetary easing is likely from the Norges Bank, although the central bank's slow pace of action betrays reluctance to cut rates, given its macroprudential concerns.

Where we are different

We are more pessimistic than the market on the growth outlook. The level and persistence of low oil prices means the growth effects are likely to be amplified, in our view. The North Sea oil industry is under increasing pressure and Norwegian disposable incomes are flagging.

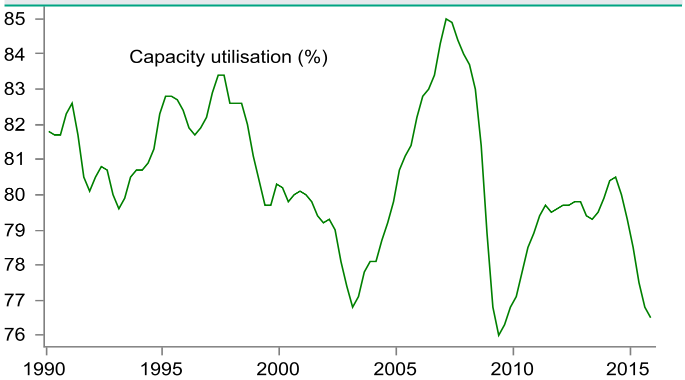
Some forecasters expect zero rates in Norway, with some even talking of negative rates. We think this goes too far. A cyclical easing of monetary policy will not address a structural change in the terms of trade. We see 0.25% as the bottom of the cycle, reached by Q4 2016.

Chart 1: Unemployment breaking higher



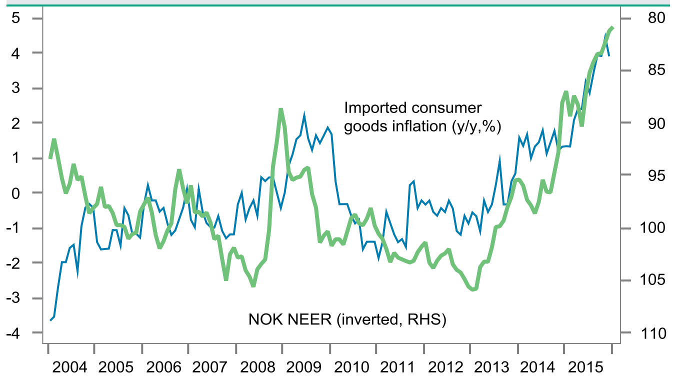
Source: Statistics Norway, Norges Bank, Macrobond, BNP Paribas

Chart 2: Falling capacity utilisation



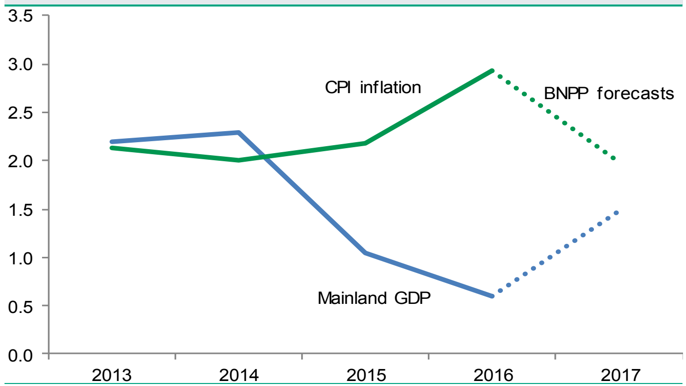
Source: Statistics Norway, Macrobond, BNP Paribas

Chart 3: Exchange rate raising imported goods' prices



Source: Statistics Norway, Macrobond, BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: Statistics Norway, Macrobond, BNP Paribas

Norway: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-	-	-0.1	0.0	1.6	-1.2	0.0	0.1	0.2	0.3
Mainland GDP (% q/q)	-	-	-	-	-	0.2	0.2	0.0	0.1	0.2	0.2	0.2	0.3
GDP	1.1	2.2	1.7	0.1	1.3	2.4	1.3	2.6	0.3	0.4	0.5	-0.9	0.6
Mainland GDP	2.2	2.3	1.1	0.6	1.5	1.9	1.1	0.8	0.4	0.4	0.4	0.7	0.9
Domestic demand ex stocks	3.3	1.8	0.3	0.4	1.5	0.8	0.0	-0.2	0.7	0.4	0.2	0.4	0.6
Private consumption	2.7	1.7	2.1	1.1	1.3	2.2	2.0	2.0	2.0	1.5	1.1	1.1	0.8
Public consumption	1.0	2.9	1.8	2.6	2.8	2.6	2.0	1.4	1.1	1.9	2.3	2.8	3.3
Fixed investment	6.2	0.1	-4.0	-3.1	0.5	-3.4	-5.3	-5.5	-1.9	-3.0	-3.4	-3.4	-2.5
Exports	-1.8	2.2	2.6	2.1	2.0	2.0	2.6	6.1	-0.2	3.5	3.8	-1.1	2.3
Imports	4.8	1.7	0.5	1.2	2.7	5.0	0.9	-4.5	0.8	-2.1	0.3	3.8	3.1
Manufacturing production	3.5	3.5	0.8	1.9	2.2	-1.1	0.3	0.5	0.3	0.5	0.5	0.7	0.6

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	2.1	2.0	2.2	2.9	2.0	2.0	2.2	2.0	2.5	3.0	3.1	2.9	2.7
CPI-ATE	1.6	2.4	2.7	2.4	1.6	2.3	2.6	2.9	3.0	2.9	2.6	2.0	1.9
Wages & salaries	3.5	2.7	2.3	1.7	1.9	2.4	2.3	2.3	2.1	1.8	1.7	1.7	1.7
Unemployment rate (LFS, sa, %)	3.5	3.5	4.4	5.1	5.3	4.1	4.3	4.5	4.8	4.9	5.1	5.1	5.2

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (NOK bn)	388.3	312.5	275.2	249.1	251.1	-	-	-	-	-	-	-	-
Ex-oil (NOK bn)	-163.2	-172.6	-195.3	-178.6	-155.8	-	-	-	-	-	-	-	-
Current account (NOK bn)	307.7	307.0	263.9	229.1	248.9	-	-	-	-	-	-	-	-
Current account (% of GDP)	10.0	9.7	8.3	7.0	7.3	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
General govt. budget (% of GDP)	11.3	9.1	8.4	7.6	6.7	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	12.6	10.7	9.9	9.1	8.4	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	29.2	30.1	32.7	32.8	33.0	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest and FX rates (2)													
Repo rate (%)	1.50	1.25	0.75	0.25	0.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.25
3-month rate (%)	1.68	1.48	1.13	0.55	0.55	1.47	1.33	1.12	1.13	0.85	0.85	0.80	0.55
10-year bond yield (%)	3.00	1.61	1.54	0.60	0.45	1.48	1.84	1.49	1.54	1.25	1.20	0.90	0.60
Spread over Bund (bp)	114	107	91	80	65	130	107	90	91	100	90	90	80
EURNOK	7.34	9.07	9.61	9.40	9.00	8.65	8.77	9.52	9.61	9.50	9.40	9.40	9.40
USDNOK	5.56	7.49	8.85	8.25	8.57	8.06	7.86	8.53	8.85	8.33	8.10	8.17	8.25

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Statistics Norway, Norges Bank, BNP Paribas forecasts

Russia: Pressure is on

Recession continues

The Russian economy has suffered from a perfect storm, with a structural crisis amplified by the oil-price collapse. GDP fell by 3.7% in 2015 and we see another (albeit smaller) contraction this year. Any growth recovery is conditional on a rebound in oil prices.

Inflation fall almost over

Inflation declined to 9.8% y/y in January, but recent oil-inspired rouble weakness should soften the downtrend. The favourable base effects will fade in March, in our view, and inflation will stay close to or above 9% throughout most of the year, finishing it at 8.8%.

Budget deficit widens

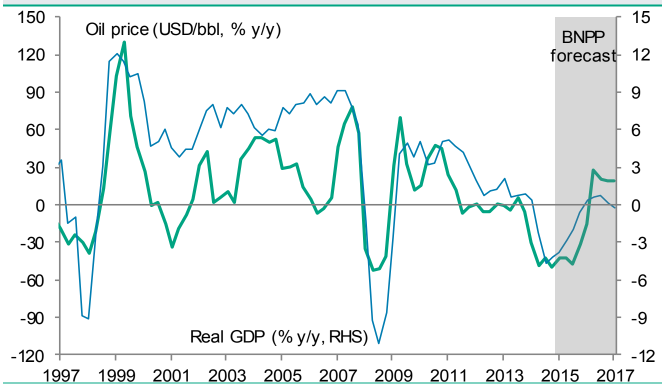
We expect the federal budget deficit to widen to 3.7% of GDP in 2016, to be financed mostly out of the Reserve Fund and privatisations. Without planned spending cuts and revenue-side measures, we estimate unexpectedly low oil prices would have taken it to 5.4% of GDP.

Where we are different

The weaker oil-price outlook has prompted us to revise our growth forecast for 2016 from −0.7% to −1.8%. This remains well below consensus, which is moving in our direction, having adjusted from 0% in November to −0.7% in February.

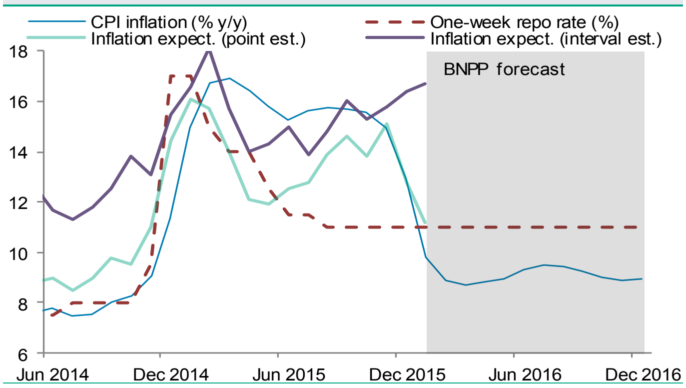
The central bank stayed on hold in January amid hawkish rhetoric. We believe rate cuts are unlikely this year, unless oil prices return to autumn 2015 levels and both inflation and inflation expectations decline faster than expected. Consensus expects 150bp of cuts by year end.

Chart 1: Current dip in oil prices will delay the recovery



Source: Rosstat, Bloomberg, BNP Paribas forecasts

Chart 2: Inflation decline is almost over



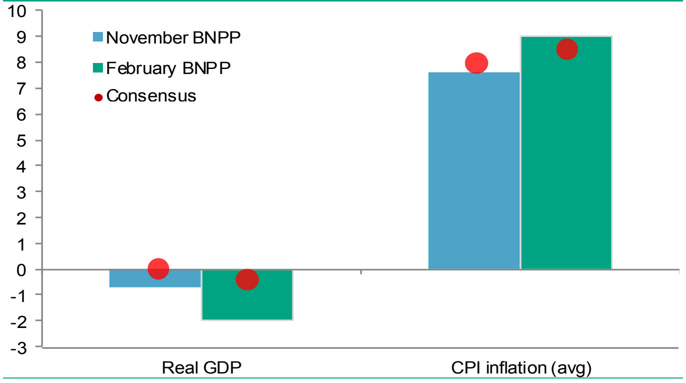
Source: Rosstat, CBR, BNP Paribas forecasts

Chart 3: Lower oil prices to widen the budget gap

USDRUB (avg 2016)	Urals oil price (USD/bbl, avg 2016)						
	20	25	30	35	40	45	50
63	-8.70%	-7.60%	-6.60%	-5.60%	-4.70%	-3.80%	-3.00%
68	-8.60%	-7.40%	-6.30%	-5.30%	-4.30%	-3.30%	-2.40%
73	-8.40%	-7.20%	-6.00%	-4.90%	-3.80%	-2.80%	-1.80%
78	-8.30%	-7.00%	-5.70%	-4.50%	-3.30%	-2.20%	-1.20%
83	-8.20%	-6.70%	**-5.40%**	-4.10%	-2.90%	-1.70%	-0.60%
88	-8.00%	-6.50%	-5.10%	-3.80%	-2.40%	-1.20%	0.00%
93	-7.90%	-6.30%	-4.80%	-3.40%	-2.00%	-0.60%	0.60%

Source: Ministry of Finance, BNP Paribas. Note: these scenarios do not include currently discussed spending and revenue measures (c. 1.7% of GDP).

Chart 4: Growth and inflation, 2016 (%)



Source: Bloomberg consensus forecasts, BNP Paribas forecasts

Russia: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q) sa	-	-	-	-	-	-1.2	-1.3	-0.6	-0.8	-0.6	-0.3	0.2	0.0
GDP (% y/y)	1.3	0.6	-3.7	-1.8	0.6	-2.2	-4.6	-4.1	-3.8	-3.2	-2.2	-1.4	-0.6
GDP (USD bn)	2075	1867	1213	1013	948	263	332	305	313	244	246	258	265
Private consumption	5.0	1.3	-9.2	-0.7	0.7	-9.0	-8.7	-9.4	-9.6	-1.2	-0.2	-0.8	0.2
Public consumption	1.2	-0.1	-0.2	-0.9	-1.1	-0.1	0.0	-0.4	-0.5	-0.7	-2.0	-0.3	-0.5
Fixed investment	0.9	-2.6	-7.5	-4.4	0.9	-6.9	-7.6	-7.3	-8.4	-6.1	-5.7	-4.8	-0.8
Exports	5.4	0.5	0.0	-2.3	-0.8	2.2	0.1	-1.0	-1.3	-3.0	-2.5	-2.0	-1.7
Imports	3.4	-7.3	-26.3	-7.6	-1.3	-26.6	-27.3	-25.6	-25.6	-8.3	-6.9	-8.6	-6.5
Industrial production	0.4	1.6	-3.4	-0.8	1.0	-0.4	-4.9	-4.2	-3.9	-2.7	-0.6	-0.2	0.2

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	6.8	7.8	15.6	9.1	7.2	16.2	15.8	15.7	14.5	9.2	9.1	9.4	8.9
CPI (2)	6.5	11.4	12.9	8.8	6.1	16.9	15.3	15.7	12.9	8.7	9.4	9.3	8.8
Unemployment rate (%)	5.5	5.2	5.8	6.5	6.7	-	-	-	-	-	-	-	-

	Year					2015				2016			
External trade	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Trade balance (USD bn)	181.9	189.7	145.6	87.9	122.1	44.6	43.1	28.3	29.5	22.9	20.0	18.5	26.4
Current account (USD bn)	34.8	58.4	65.8	28.5	70.5	29.3	15.9	7.5	13.0	13.3	-1.7	2.9	14.0
Current account (% of GDP)	1.7	3.2	5.4	2.8	7.4	-	-	-	-	-	-	-	-
Gross external debt (USD bn)	729	600	515	475	440	-	-	-	-	-	-	-	-
International reserves (USD bn)	510	386	368	355	365	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (% of GDP)	-1.3	-1.2	-3.9	-4.8	-4.7	-	-	-	-	-	-	-	-
Federal govt. budget (% of GDP)	-0.5	-0.5	-2.6	-3.7	-3.5	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	14.0	17.8	18.5	19.4	22.4	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest & FX rates (2)													
Official interest rate (%)	5.50	17.00	11.00	11.00	9.00	14.00	11.50	11.00	11.00	11.00	11.00	11.00	11.00
3-month rate (%)	7.15	23.77	11.80	11.60	9.80	15.70	12.54	11.95	11.80	11.80	11.80	11.80	11.60
USDRUB	32.87	60.74	73.09	89.37	97.80	57.95	55.77	65.64	73.09	73.38	79.29	84.31	89.37

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Rosstat, Central Bank of Russia, BNP Paribas forecasts

Ukraine: Slow going

Growth has troughed

While the economy has reached its low point, we believe, growth will increase only gradually. Exports are likely to be stifled by low commodity prices and weak emerging-market currencies. The unresolved armed conflict and institutional weakness should curb investments, too.

Inflation to remain quiet

Having peaked last year, CPI inflation should remain subdued. Continuing weak fundamentals for the hryvnia are likely to keep monetary policy restrictive this year. Prices are also likely to be weighed down by limited consumer demand and imported deflationary momentum.

Risk of instability

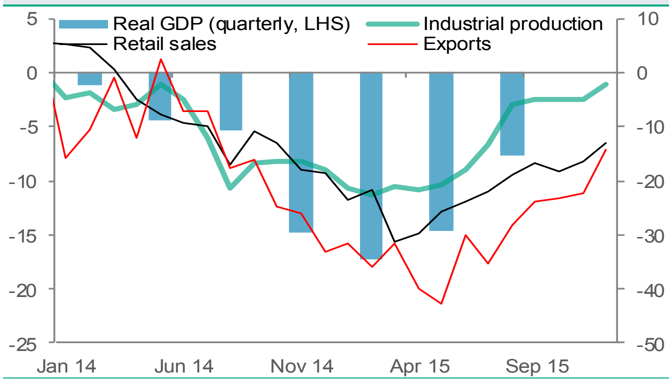
Authorities have shown a strong commitment to the IMF programme benchmarks, although progress is slow in tackling corruption. They are continuing fiscal consolidation and other reforms, including in the energy sector. A possible rise in political instability is the main risk, in our view.

Where we are different

While our 2016 GDP growth forecast of 1.2% is fairly close to the 1.5% consensus view, we see substantial downside risks that could knock this year's growth to zero if sentiment is dampened further by uncertainties around the continuance of the IMF's programme.

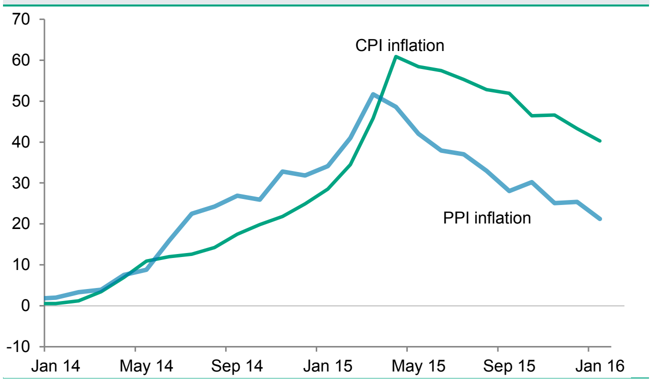
Our year-end inflation forecast (14.0%) is also substantially above consensus (9.0%), as we believe further adjustment of the hryvnia exchange rate will be deeper than generally expected because of the widening current-account deficit and near-zero net private capital flows.

Chart 1: GDP vs industrial output and sales (% y/y)



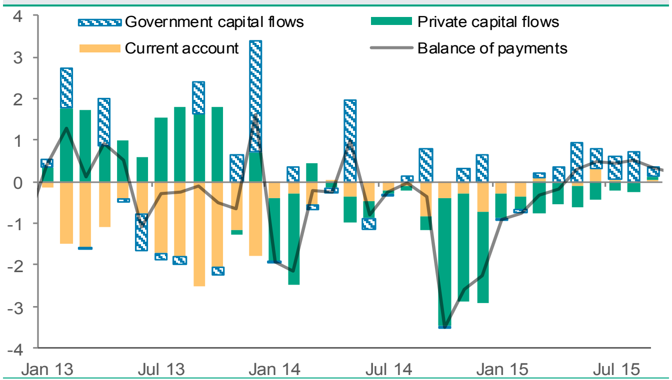
Source: Ukrainian Statistics Committee, UkrSibbank

Chart 2: Consumer and producer prices (% y/y)



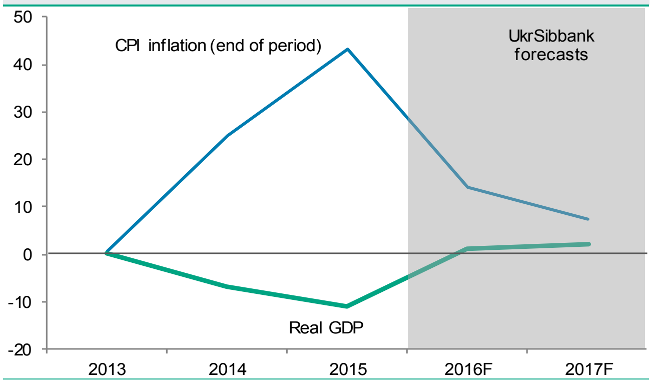
Source: Ukrainian Statistics Committee, UkrSibbank

Chart 3: Balance of payments, monthly flows (USD bn)



Source: National Bank of Ukraine, UkrSibbank

Chart 4: Growth and inflation (% y/y)



Source: Ukrainian Statistics Committee, UkrSibbank forecasts

IMPORTANT DISCLOSURE:
This analysis has been produced by JSCIB UkrSibbank and has been reviewed, but not amended, by BNP Paribas. BNP Paribas owns a 84.99% controlling stake in JSCIB UkrSibbank. This analysis does not contain investment research recommendations.

Yevgeniy Orudzhev / Serhiy Yahnych
February 2016

Ukraine: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% y/y)	0.0	-6.8	-11.1	1.2	2.5	-17.2	-14.6	-7.2	-7.7	2.0	0.0	1.0	2.0
GDP (USD bn)	177.4	131.3	84.6	76.0	80.5	17.3	20.9	25.2	21.2	17.0	18.3	21.1	19.6
GDP per capita (USD)	3908	3068	1991	1797	1868	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	-0.2	12.1	48.7	17.5	10.2	36.3	48.1	49.9	48.7	34.1	22.4	18.8	17.5
CPI (2)	0.5	24.9	43.3	14.0	7.4	20.3	40.7	41.4	43.3	3.3	9.6	8.5	14.0
PPI (2)	1.7	31.8	25.0	10.0	7.2	-	-	-	-	-	-	-	-
Unemployment rate (%)	7.7	9.7	9.7	9.6	8.5	10.0	9.6	9.4	9.7	9.8	9.4	9.4	9.6

	Year					2015				2016			
External trade	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Trade balance (USD bn)	-22.1	-7.1	-3.2	-4.9	-5.0	-1.1	-0.4	-0.7	-1.0	-1.1	-1.0	-1.3	-1.5
Current account (USD bn)	-16.5	-4.6	-0.2	-2.1	-2.0	-0.5	0.2	0.1	0.0	-0.5	-0.4	-0.6	-0.6
Current account (% of GDP)	-9.2	-3.5	-0.2	-2.8	-2.5	-3.1	1.0	0.3	0.2	-2.8	-2.3	-2.6	-3.3
Net FDI (USD bn)	4.1	0.3	3.1	4.1	5.0	0.4	0.9	0.9	0.9	0.6	0.9	1.1	1.5
International reserves (USD bn) (2)	20.4	7.5	13.3	18.0	22.6	10.0	10.3	12.8	13.3	14.5	15.0	16.5	18.0
External debt (USD bn)	142.1	126.3	121.7	127.6	133.2	126.0	127.0	127.5	121.7	122.4	124.1	125.9	127.6
External debt (% of GDP)	79.8	96.2	143.8	167.9	165.4	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
General govt. budget (% of GDP)	-4.4	-5.0	-2.4	-3.8	-3.5	-	-	-	-	-	-	-	-
Primary budget balance (% of GDP)	-2.3	-1.9	2.3	1.4	1.1	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	39.9	70.3	83.1	92.8	87.9	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest & FX rates (2)													
Official interest rate (%)	6.50	14.00	22.00	16.00	13.00	30.00	30.00	22.00	22.00	22.00	20.00	16.00	16.00
3-month rate (%)	16.00	20.00	23.00	18.00	10.00	30.00	30.00	25.00	23.00	23.00	21.00	18.00	18.00
USDUAH	8.24	15.82	24.03	30.00	30.00	23.44	21.01	21.20	24.03	26.50	28.50	30.00	30.00

Footnotes: (1) forecast or preliminary data, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: UkrStat, MinFin, NBU, UkrSibbank

IMPORTANT DISCLOSURE:

This analysis has been produced by JSCIB UkrSibbank and has been reviewed, but not amended, by BNP Paribas. BNP Paribas owns a 84.99% controlling stake in JSCIB UkrSibbank. This analysis does not contain investment research recommendations.

Poland: Changing environment

Downgrades on the cards

Concern about governance prompted S&P to downgrade Poland's sovereign rating to BBB+ from A−. While we do not expect other rating agencies to act solely on the basis of changes to the institutional framework, the worse fiscal outlook suggests further downgrades might follow.

Deficit to top EU limit

One-off revenue should keep fiscal balances safely in check this year, but fiscal measures look set to widen the budget deficit by over 1pp of GDP from 2017 onwards. We expect next year's general government deficit to top the EU's limit of 3% of GDP by a wide margin.

Inflation pushed higher

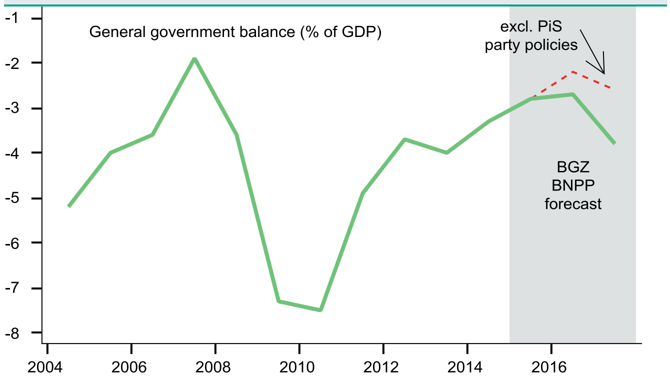
Inflation may be pushed higher by loose fiscal policy aimed at boosting consumption, especially as it will be financed by sector-specific taxes on banks and retail chains. However, we look for deflation to last until Q3 2016 due to low oil prices and a cut in energy tariffs.

Where we are different

Our GDP growth forecast for 2016 is 0.5pp below consensus, as we see no investment growth (GFCF), while the market expects more than 5%. We expect deflation to persist in 2016 but inflation to top 2% in 2017, compared with consensus forecasts of 0.7% and 1.8% respectively.

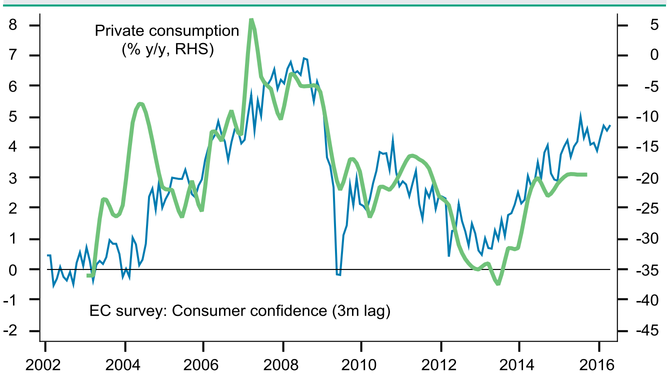
We expect the central bank to keep policy rates unchanged in 2016; the market foresees a 25bp cut. In the event of a credit slowdown, we think the central bank will launch a non-conventional lending scheme in H2 2016.

Chart 1: Government's policy to worsen fiscal situation



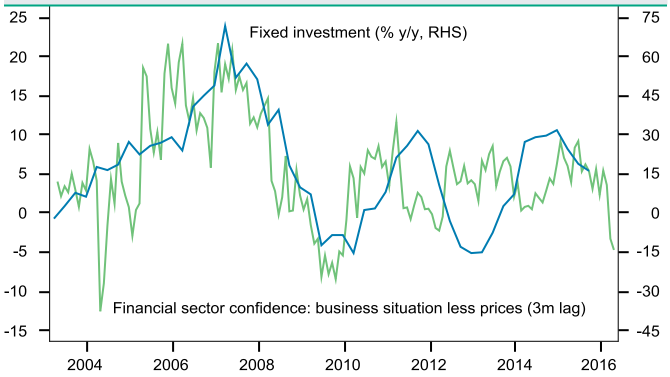
Source: European Commission, Macrobond, BGZ BNP Paribas forecasts

Chart 2: Boost to household spending



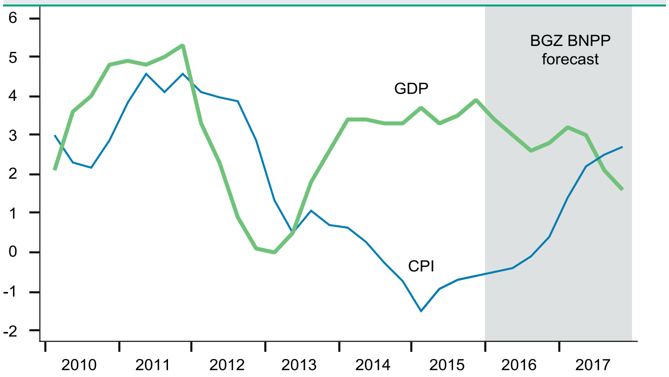
Source: European Commission, GUS, Macrobond, BGZ BNP Paribas

Chart 3: Dent to investment



Source: European Commission, GUS, Macrobond, BGZ BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: GUS, Macrobond, BGZ BNP Paribas forecasts

IMPORTANT DISCLOSURE:
This analysis has been produced by Bank BGZ BNP Paribas and has been reviewed, but not amended, by BNP Paribas. BNP Paribas is a majority shareholder in Bank BGZ BNP Paribas. This analysis does not contain investment research recommendations.

Michał Dybuła / Marcin Kujawski

Poland: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16(1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-		1.0	0.6	0.9	1.1	0.7	0.7	0.7	0.9
GDP	1.2	3.4	3.6	3.0	2.5	3.7	3.3	3.5	3.9	3.4	3.0	2.6	2.8
Final domestic demand	0.9	2.7	2.9	3.2	2.9	3.6	2.7	2.4	2.9	2.9	3.1	3.2	3.5
Private consumption	0.8	2.6	3.2	4.4	2.8	3.1	3.1	3.1	3.4	3.8	4.5	4.9	4.4
Public consumption	2.1	4.7	3.2	2.3	2.6	3.7	2.5	2.7	4.0	2.3	2.1	2.1	2.8
Fixed investment	-0.4	10.1	6.2	0.2	4.2	11.5	6.1	4.6	2.5	1.1	-0.4	-1.5	1.6
Stocks (contrib. to growth, y/y)	-1.0	0.4	-0.3	0.1	0.1	-1.4	-0.4	-0.1	0.6	0.5	0.1	-0.1	-0.2
Exports	6.1	6.4	5.1	4.6	4.3	8.4	4.8	3.9	3.4	3.2	4.7	5.4	5.0
Imports	1.7	10.0	4.5	5.2	5.9	6.8	4.5	3.1	3.4	3.5	4.9	6.0	6.4
Industrial production	2.3	3.4	4.8	4.3	4.2	5.2	4.2	4.4	5.5	4.2	4.4	4.4	4.4

	Year					2015				2016			
	13	14	15 (1)	16(1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	0.9	0.0	-0.9	-0.2	2.2	-1.5	-0.9	-0.7	-0.6	-0.5	-0.4	-0.1	0.4
Core CPI	1.2	0.6	0.3	0.6	1.5	0.4	0.3	0.3	0.2	0.4	0.6	0.6	0.7
Employment	-0.4	0.8	2.0	0.0	0.3	1.8	2.2	1.9	2.1	0.4	0.1	-0.2	-0.2
Nominal wages	3.4	3.6	3.3	4.1	3.9	4.1	3.1	3.0	3.2	3.8	4.4	4.2	4.1
Unit labour costs	1.8	1.0	1.7	1.2	1.7	2.2	2.0	1.4	1.4	0.8	1.5	1.4	1.0
Unemployment rate (%)	13.5	12.3	10.5	9.8	9.0	11.8	10.7	9.9	9.7	10.7	9.9	9.3	9.2

	Year					2015				2016			
	13	14	15 (1)	16(1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (EUR bn)	-0.3	-3.3	1.4	3.8	0.2	1.7	0.2	-0.9	0.3	2.2	1.5	-0.1	0.1
Current account (EUR bn)	-5.0	-8.3	-1.0	-0.9	-4.7	0.9	0.9	-2.5	-0.2	1.1	0.4	-1.3	-1.1
Current account (% of GDP)	-1.2	-2.1	-0.2	-0.2	-1.1	0.9	0.8	-2.4	-0.2	1.1	0.4	-1.3	-0.9

	Year					2015				2016			
	13	14	15 (1)	16(1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (PLN bn)	-67	-57	-50	-52	-78	-	-	-	-	-	-	-	-
General govt. budget (% of GDP)	-4.0	-3.3	-2.8	-2.8	-4.0	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-1.5	-1.4	-1.1	-0.9	-2.0	-	-	-	-	-	-	-	-
General govt. debt (% of GDP)	55.9	50.4	51.5	52.5	54.1	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16(1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates & bonds (2)													
Policy rate (%)	2.50	2.00	1.50	1.50	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3-month rate (%)	2.71	2.06	1.70	1.20	2.20	1.65	1.72	1.73	1.70	1.20	1.20	1.20	1.20
2-year bond (%)	3.03	1.79	1.58	1.50	1.70	1.60	2.00	1.80	1.58	1.50	1.50	1.50	1.50
5-year bond (%)	3.78	2.13	2.23	1.90	2.75	1.90	2.76	2.39	2.23	2.25	2.00	1.90	1.90
10-year bond (%)	4.34	2.52	2.95	2.50	3.40	2.30	3.35	2.86	2.95	3.00	2.95	2.70	2.50
Spread over Bund (bp)	240	198	232	270	360	212	258	227	232	275	265	270	270
Interest rate swaps (2)													
2-year swap (%)	3.02	1.65	1.65	1.40	1.50	1.62	1.99	1.65	1.65	1.40	1.40	1.40	1.40
5-year swap (%)	3.73	2.15	1.99	1.70	1.80	1.85	2.53	2.01	1.99	1.80	1.70	1.70	1.70
10-year swap (%)	4.24	2.40	2.44	2.00	2.10	2.09	2.99	2.48	2.44	2.43	2.20	2.10	2.00
FX rates (2)													
EURPLN	4.15	4.30	4.26	4.35	4.30	4.09	4.19	4.24	4.26	4.50	4.35	4.35	4.35
USDPLN	3.02	3.55	3.95	3.82	4.10	3.79	3.76	3.80	3.95	3.95	3.75	3.78	3.82

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: GUS, NBP, Macrobond, Bank BGZ BNP Paribas forecasts

Michał Dybuła / Marcin Kujawski February 2016

Hungary: Uneven growth

Households key to growth

We expect the Hungarian economy to expand by a lukewarm 2.2% y/y in 2016, solely thanks to buoyant household spending. While some boost to investment may come from a new housing subsidy plan, we envisage capital spending to remain in the doldrums this year.

Investment grade likely

The housing programme may support investment, but it poses a risk to budget stability beyond 2016. Still, with the major improvement in fiscal and external balances in the last few years, we expect upgrades to investment grade by the three major rating agencies this year.

Inflation headed above 3%

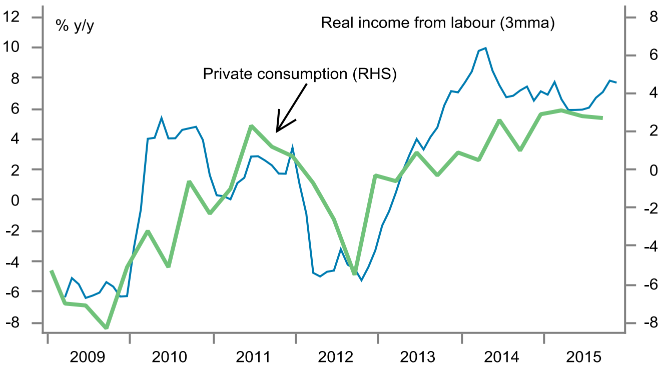
We expect inflation to remain muted this year, as increasing wage and demand pressures will be offset by the impact of cheap oil. Fading base effects on fuel prices should lead CPI inflation to exceed the central bank's 3% inflation target in 2017, however.

Where we are different

For 2016, we expect lower GDP growth than the consensus estimate of 2.5%. We also look for lower CPI inflation: 0.6% compared with the market expectation of an average rise of almost 2% in consumer prices. Our 2017 inflation path, however, is above the market view.

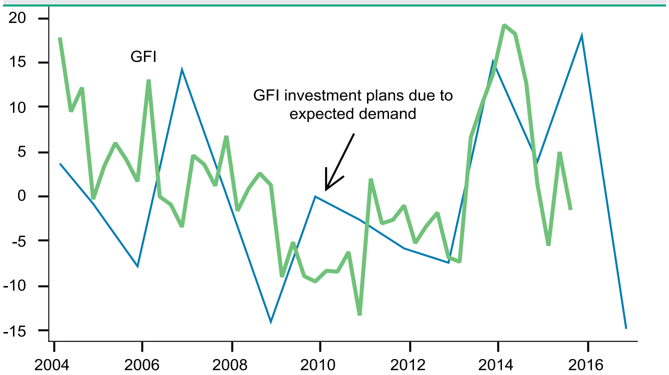
Unlike the market's call for unchanged rates, we expect the central bank to raise rates by 65bp over the course of 2017, while continuing its self-financing programme, which aims to reduce the country's dependence on external funding.

Chart 1: Tight labour market boosts household spending



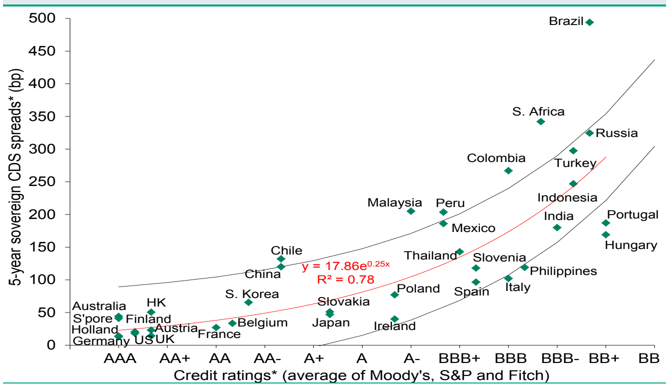
Source: KSH, Macrobond, BGZ BNP Paribas

Chart 2: Expected demand cuts investment plans (% y/y)



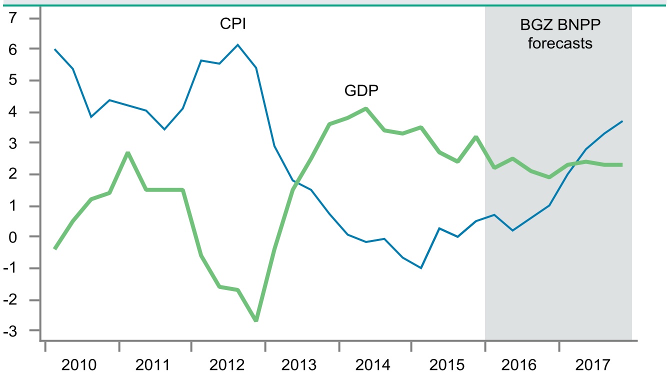
Source: European Commission, KSH, Macrobond, BGZ BNP Paribas

Chart 3: Market prices in rating upgrades to BBB



Source: Bloomberg, BGZ BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: KSH, Macrobond, BGZ BNP Paribas forecasts

Marcin Kujawski / Michał Dybuła February 2016

Hungary: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-		0.8	0.6	0.7	1.0	0.5	0.5	0.6	0.6
GDP	1.8	3.7	3.0	2.2	2.3	3.5	2.7	2.4	3.2	2.2	2.5	2.1	1.9
Final domestic demand	2.2	4.3	1.7	3.3	3.2	-0.3	2.8	1.7	2.5	3.5	3.0	3.5	3.2
Private consumption	0.5	1.5	2.4	4.1	3.4	2.1	2.3	2.6	2.8	4.0	3.9	4.3	4.2
Public consumption	3.1	5.8	0.1	3.1	2.0	-5.6	0.7	4.4	1.0	5.1	3.3	2.0	2.0
Fixed investment	5.8	12.9	0.1	1.0	3.2	-5.5	5.0	-1.5	2.6	1.1	0.2	1.8	0.8
Stocks (contrib. to growth, y/y)	-0.7	-0.2	-0.3	0.1	0.0	0.9	-2.0	-0.3	0.4	-0.6	0.9	0.0	0.0
Exports	6.4	7.6	8.8	5.7	6.6	10.4	9.4	7.6	7.9	4.6	5.1	6.4	6.5
Imports	6.3	8.6	8.0	8.3	9.2	8.2	7.6	6.8	9.5	8.0	6.6	9.4	9.1
Industrial production	1.1	7.7	7.5	4.2	4.8	8.0	6.3	5.9	9.7	4.1	4.0	4.4	4.4

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	1.7	-0.2	-0.1	0.6	2.9	-1.0	0.3	0.0	0.5	0.7	0.2	0.6	1.0
Core CPI	3.3	2.2	1.2	1.7	2.5	1.0	1.3	1.2	1.4	1.6	1.8	1.7	1.8
Employment	1.7	5.4	2.7	0.2	-0.1	2.0	3.1	2.8	2.8	0.3	0.1	0.2	0.2
Nominal wages	3.4	3.1	4.0	4.7	5.2	4.1	2.9	4.5	4.4	4.3	4.6	5.0	4.8
Unit labour costs	3.3	4.8	3.7	2.7	3.1	2.6	3.3	4.9	4.0	2.4	2.3	3.1	3.1
Unemployment rate (%)	10.2	7.7	6.8	7.0	7.2	7.8	6.9	6.4	6.2	7.9	7.1	6.6	6.4

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (EUR bn)	6.6	6.3	7.3	6.9	6.7	2.5	1.7	2.0	1.1	2.3	1.5	1.9	1.2
Current account (EUR bn)	4.0	2.4	4.4	2.8	2.2	1.5	1.0	1.7	0.1	1.4	0.4	0.9	0.1
Current account (% of GDP)	4.0	2.3	4.1	2.6	2.0	6.1	3.8	6.2	0.4	5.5	1.6	3.0	0.2

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
General govt. budget (HUF bn)	-789	-821	-461	-677	-1059	-	-	-	-	-	-	-	-
General govt. budget (% of GDP)	-2.6	-2.6	-1.4	-1.9	-2.9	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	1.9	1.5	1.5	0.7	0.0	-	-	-	-	-	-	-	-
General govt. debt (% of GDP)	76.8	76.2	74.5	73.8	73.0	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates & bonds (2)													
Policy rate (%)	3.00	2.10	1.35	1.35	2.00	1.95	1.50	1.35	1.35	1.35	1.35	1.35	1.35
3-month rate (%)	2.99	2.10	1.40	1.40	2.00	1.89	1.41	1.35	1.40	1.40	1.40	1.40	1.40
3-year bond (%)	4.11	2.82	2.11	1.80	2.00	2.16	2.11	1.55	2.11	1.80	1.80	1.80	1.80
5-year bond (%)	4.76	3.25	2.55	2.40	2.10	2.64	2.98	2.33	2.55	2.40	2.40	2.40	2.40
10-year bond (%)	5.71	3.69	3.33	2.80	3.00	3.30	3.88	3.28	3.33	3.50	3.40	3.00	2.80
Spread over Bund (bp)	377	315	270	300	320	312	311	269	270	325	310	300	300
Interest rate swaps (2)													
3-year swap (%)	3.77	2.23	1.59	1.35	1.90	1.80	1.95	1.51	1.59	1.35	1.35	1.35	1.35
5-year swap (%)	4.14	2.54	2.00	2.40	2.10	2.07	2.54	1.94	2.00	1.60	2.10	2.30	2.40
10-year swap (%)	5.26	3.25	2.87	2.00	2.60	2.68	3.49	2.89	2.87	2.34	2.30	2.15	2.00
FX rates (2)													
EURHUF	297	317	316	310	325	299	315	313	316	310	310	310	310
USDHUF	216	262	291	272	310	279	283	281	291	272	267	270	272

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: KSH, NBH, Macrobond, Bank BGZ BNP Paribas forecasts

Marcin Kujawski / Michał Dybuła

Czech Republic: Weaker growth, little inflation

Growth curbs abroad …

For an export-oriented economy such as the Czech Republic, the global outlook is of key importance. Slower growth globally suggests that this year the country is unlikely to see a repeat of last year's growth of more than 4%.

… and at home

We see the Czech economy slowing irrespective of the situation abroad, in fact. We expect base effects on inventories to unwind and the investment outlook to deteriorate, as capacity utilisation has recently dropped, diminishing the case for further capital expenditure.

Inflation low for longer

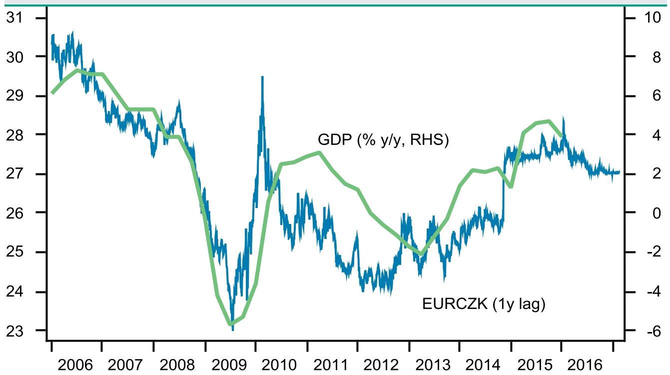
In light of the new slump in oil prices, Czech inflation looks set to stay low for longer. Still, demand-side pressures have intensified lately, suggesting that inflation will slowly rise towards the central bank's 2% target and touch it in early 2017, although we expect it to fall afterwards.

Where we are different

We expect markedly softer GDP growth in 2016-17 than the 2.7-2.8% pencilled in for both years by the market. For 2016, our CPI inflation forecast of 0.5% is also considerably lower than the consensus view of 1.4%.

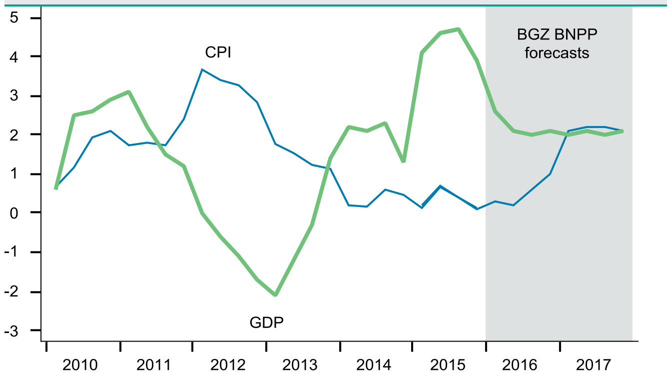
With growth slowing and inflation only marginally above the target in 2017, we doubt that the central bank can remove the koruna cap in H1 2017, as is its current plan. We also look for a cut in the depo rate to −0.10% in March or Q2, following the deposit-rate cut by ECB.

Chart 1: Growth will slow to 2% handle this year



Source: CZSO, Macrobond, BGZ BNP Paribas

Chart 2: Growth and inflation (% y/y)



Source: CZSO, Macrobond, BGZ BNP Paribas forecasts

Czech Republic: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
GDP	-0.5	2.0	4.3	2.2	2.0
Private consumption	0.7	1.5	2.9	2.7	1.9
Fixed investment	-2.7	2.0	6.7	4.1	2.7
Exports	0.1	8.9	7.4	6.1	7.0
Imports	0.1	9.9	8.3	6.3	7.2
Inflation & labour					
CPI	1.4	0.3	0.4	0.5	2.2
Employment	1.0	0.8	1.4	1.0	0.7
Nominal wages	-0.1	2.3	3.3	4.6	3.9
Unemployment rate (%)	7.7	7.7	6.5	6.1	5.8
External trade					
Trade balance (EUR bn)	6.4	8.7	8.0	9.8	9.3
Current account (EUR bn)	-0.8	1.0	0.8	2.2	1.3
Current account (% of GDP)	-0.5	0.8	0.7	1.5	1.0
Financial variables					
General govt. budget (CZK bn)	-53	-83	-26	-20	-26
General govt. budget (% of GDP)	-1.3	-2.0	-0.6	-0.9	-0.8
Primary budget (% of GDP)	0.1	-0.6	0.5	0.0	0.2
General govt. debt (% of GDP)	45.2	42.7	41.3	41.8	41.6
Interest rates, bonds & FX (2)					
Policy rate (%)	0.05	0.05	0.05	0.05	0.05
3-month rate (%)	0.38	0.34	0.35	0.35	0.35
10-year bond (%)	2.54	0.75	0.70	0.50	0.70
Spread over Bund (bp)	64	21	7	70	90
EURCZK	27.33	27.72	27.00	27.00	27.00
USDCZK	19.87	22.72	24.87	23.68	25.71

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: CZSO, CNB, Macrobond, Bank BGZ BNP Paribas forecasts

IMPORTANT DISCLOSURE:
This analysis has been produced by Bank BGZ BNP Paribas and has been reviewed, but not amended, by BNP Paribas. BNP Paribas is a majority shareholder in Bank BGZ BNP Paribas. This analysis does not contain investment research recommendations.

Michał Dybuła / Marcin Kujawski

February 2016

Romania: Spending spree

Brisk growth

The sizable cut in the VAT rate coupled with public-sector wage increases should perk up private consumption this year, while the anticipated rise in household spending should underpin private investment. As a result, we look for brisk 4% y/y GDP growth in 2016.

Loose fiscal policy

The boost to economic growth will most likely come at the expense of a marked widening of the general government deficit, which we expect to touch 3% of GDP this year. If the fiscal policy for 2017 is not reassessed, we see the deficit topping the EU's 3% limit next year.

Election risk

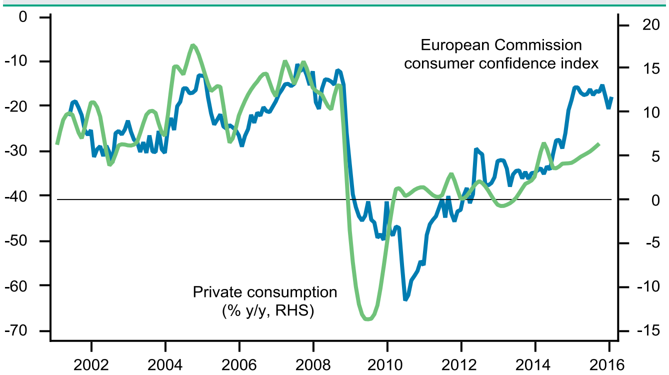
The general election to be held by the end of 2016 poses a clear risk to fiscal stability: generous pre-election promises would place a great deal of pressure on next year's budget and would be likely to put a further dent in public investment, Romania's key structural problem.

Where we are different

For 2016, we expect significantly deeper deflation than the consensus view: a 1.1% decline in consumer prices compared with only 0.2%. In 2017, substantial fiscal loosening should push CPI inflation above 3%; the market expects only 2.3%.

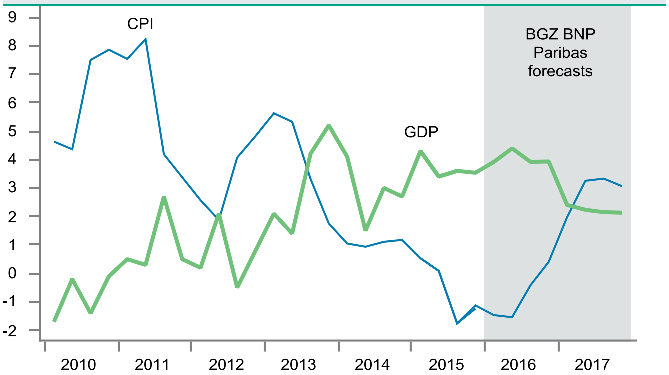
With inflation topping the central bank's 2.5% target, we forecast 125bp in rate hikes in 2017. In light of tighter monetary policy, higher inflation and the need for fiscal consolidation, we envisage moderate 2.2% GDP growth next year against the consensus estimate of 3.5%.

Chart 1: Household spending to drive the economy



Source: INSSE, European Commission, Macrobond, BGZ BNP Paribas

Chart 2: Growth and inflation



Source: INSSE, Macrobond, BGZ BNP Paribas forecasts

Romania: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
GDP	3.2	2.8	3.8	4.0	2.2
Private consumption	1.0	4.6	6.0	7.9	3.4
Fixed investment	-8.3	-4.4	7.0	5.5	1.4
Exports	16.0	8.3	6.8	6.0	6.0
Imports	4.1	7.9	8.8	11.1	6.2
Inflation & labour					
CPI	4.0	1.1	-0.6	-1.1	3.0
Employment	1.7	1.3	2.6	1.1	0.0
Nominal wages	4.9	5.2	7.6	7.4	3.9
Unemployment rate (%)	5.3	5.3	5.2	5.2	5.3
External trade					
Trade balance (EUR bn)	-5.8	-6.3	-7.5	-9.4	-8.5
Current account (EUR bn)	-1.5	-0.7	-2.4	-5.3	-4.4
Current account (% of GDP)	-0.9	-0.5	-1.3	-3.0	-2.4
Financial variables					
Gen. govt. budget (RON bn)	-14	-9	-12	-22	-27
Gen. govt. budget (% of GDP)	-2.2	-1.3	-1.7	-3.0	-3.4
Primary budget (% of GDP)	-0.4	0.4	0.0	-1.4	-1.8
General govt. debt (% of GDP)	38.0	39.9	39.3	40.0	41.2
Interest rates & FX (2)					
Policy rate (%)	4.00	2.75	1.75	1.75	3.00
3-month rate (%)	2.44	1.70	1.50	2.35	3.10
EURRON	4.46	4.48	4.52	4.40	4.40
USDRON	3.24	3.70	4.16	3.86	4.19

Footnotes: (1) forecast (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: INSSE, NBR, Macrobond, Bank BGZ BNP Paribas forecasts

IMPORTANT DISCLOSURE:
This analysis has been produced by Bank BGZ BNP Paribas and has been reviewed, but not amended, by BNP Paribas. BNP Paribas is a majority shareholder in Bank BGZ BNP Paribas. This analysis does not contain investment research recommendations.

Marcin Kujawski February 2016

Turkey: Susceptible to shocks

Growth set to decelerate

Growth continued to surprise with its resilience during the second half of 2015 thanks to relatively strong domestic demand and inventory build-up. We expect several of the factors supporting this resilience to wane gradually and growth to slow in 2016.

Inflation to remain high

Inflation continues to surprise to the upside. Both headline and core inflation are diverging further from the central bank's target of 5%. Deteriorating inflation expectations and hikes in the minimum wage and in utility prices mean that the inflation rate is unlikely to ease during the year.

Rising fiscal deficit

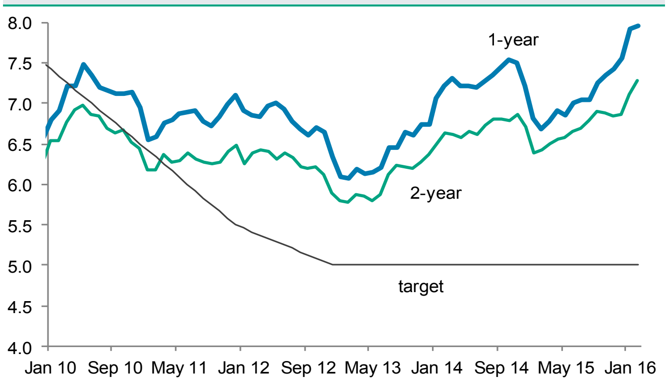
The spending initiatives of the government, including a rise in the old-age pension and 40% of the increase in the minimum wage, should add 1-1.5% of GDP to budget spending. The absence of tax-amnesty-related revenues is likely to create further pressure on the deficit.

Where we are different

We forecast the inflation rate to finish 2016 at 9%, above the consensus forecast of 8.5%. Despite the central bank's dovish bias, we now assume that the bank will have to wait longer before moving towards a more orthodox framework and will have to keep rates steady.

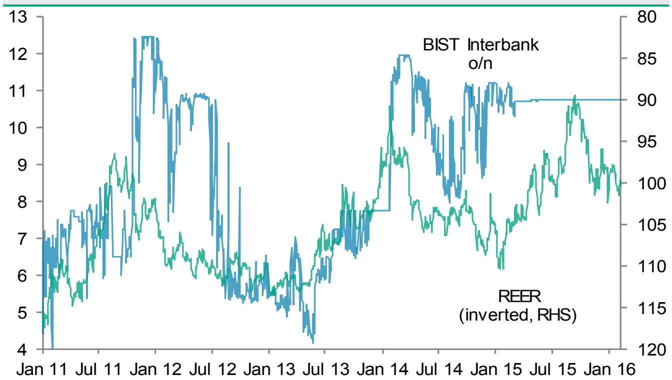
We expect the fiscal deficit to approach 3% of GDP, whereas the consensus is 2%. A larger deficit would mitigate some downside risks to growth. Turkey's current-account deficit will be lower thanks to the decline in commodity prices, but external financing will be more challenging.

Chart 1: Inflation expectations (%)



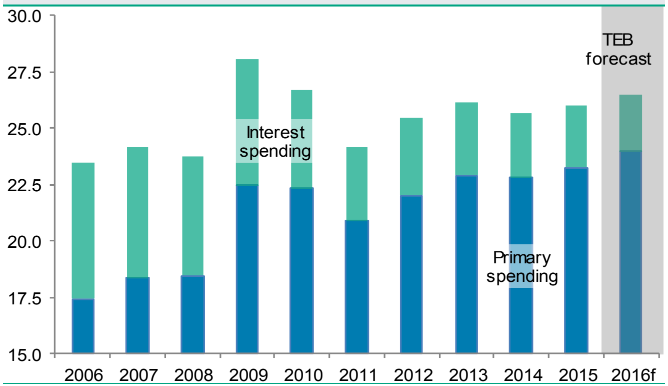
Source: CBRT, TEB

Chart 2: REER and interbank rates (%)



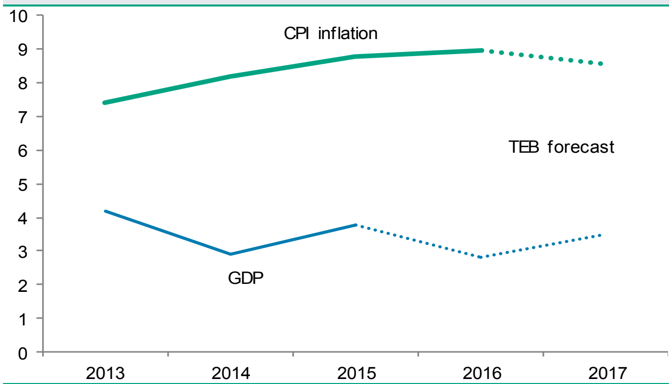
Source: CBRT, BIST ,TEB

Chart 3: Composition of fiscal spending (% GDP)



Source: MoF, Haver, TEB forecasts

Chart 4: Growth and inflation (% y/y)



Source: Turkstat, Macrobond, TEB forecasts

Selim Çakır / Emre Tekmen

Turkey: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP	4.2	2.9	3.8	2.8	3.5	2.5	3.8	4.0	4.8	4.0	3.1	2.3	2.1
Private consumption	5.1	1.4	4.3	2.6	3.2	4.6	5.5	3.4	4.0	4.1	2.8	1.8	1.6
Fixed investment	4.4	-1.3	3.9	2.6	5.3	0.4	9.7	-0.5	5.7	2.7	2.0	3.1	2.5
Exports	-0.2	6.8	0.0	2.5	5.0	-0.5	-1.9	-0.6	3.0	2.1	2.0	2.8	2.9
Imports	9.0	-0.2	2.1	2.9	6.2	4.0	1.5	-1.0	4.0	3.0	2.5	2.9	3.2

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	7.5	8.9	7.7	8.9	8.4	7.5	7.7	7.3	8.2	9.1	8.7	8.9	8.9
CPI (2)	7.4	8.2	8.8	9.0	8.6	7.6	7.2	7.9	8.8	8.6	9.0	8.6	9.0
Core CPI (2)	7.1	8.7	9.5	8.3	7.7	7.1	7.5	8.2	9.5	9.7	9.5	8.8	8.3
Unemployment rate (%) (3)	9.0	10.0	10.3	10.4	10.0	10.2	10.2	10.4	10.6	10.5	10.5	10.4	10.4

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (USD bn)	-99.9	-84.6	-63.3	-51.6	-50.6	-15.3	-18.1	-15.8	-14.1	-12.4	-13.2	-12.2	-13.9
Current account (USD bn)	-64.7	-43.6	-32.2	-26.0	-27.1	-10.5	-11.3	-2.7	-7.7	-8.7	-7.6	-0.7	-9.0
Current account (% of GDP)	-7.9	-5.5	-4.5	-3.5	-3.6	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
Gen. govt. budget (% GDP)	-1.2	-1.3	-1.2	-2.9	-2.7	-	-	-	-	-	-	-	-
Primary budget (% GDP)	2.0	1.6	1.6	-0.2	0.0	-	-	-	-	-	-	-	-
Gen. govt. debt (% GDP)	37.5	35.0	33.8	32.7	31.5	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates and bonds (2)													
1-week repo rate (%)	4.50	8.25	7.50	7.50	10.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
BIST interbank o/n rate (%)	7.75	10.91	10.75	10.75	10.00	10.68	10.75	10.75	10.75	10.75	10.75	10.75	10.75
2-year bond (%)	10.10	8.02	10.86	11.30	10.50	8.77	9.76	11.58	10.86	11.20	11.30	11.30	11.30
10-year bond (%)	10.27	7.99	10.74	11.10	10.70	8.21	9.36	11.03	10.74	10.80	11.00	11.00	11.10
FX rates (2)													
USDTRY	2.13	2.33	2.92	3.08	3.46	2.61	2.69	3.03	2.92	2.92	2.92	2.98	3.08
EURTRY	2.93	2.83	3.18	3.51	3.63	2.81	3.00	3.39	3.18	3.33	3.39	3.43	3.51

Footnotes: (1) forecast or preliminary data, (2) end period, (3) seasonally adjusted

Figures are year-on-year percentage changes unless otherwise indicated

Source: TEB, CBRT, Turkstat, Turkish ministry of finance

South Africa: Trust deficit

Growth moving lower

Structural and cyclical downside risks to growth are materialising in South Africa, as we predicted. Persistent deterioration in real-economy indicators has led us to downgrade our GDP growth forecasts, to 0.4% for 2016 and 1.4% for 2017 (from 0.9% and 1.6%, respectively).

But inflation climbing

Inflation climbed back above the central bank's upper 6% target band in January. We expect it to slip back below 6% in Q2 before sharply higher food and electricity prices result in a sustained breach from late Q3. We see CPI inflation averaging 6.0% in 2016 and 6.3% in 2017.

SARB to hike modestly

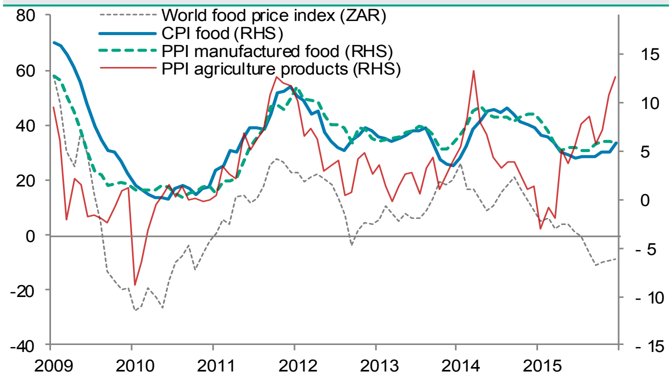
The central bank is likely to continue to raise policy rates due to the poor inflation outlook, but modestly, as we expect some stabilisation in the currency, along with further growth weakness. We expect three more 25bp rate hikes, in March, September and November.

Where we are different

We are below consensus on GDP growth for 2016 and 2017 (by 0.5pp and 0.3pp respectively) and above on CPI inflation for 2017 (by 0.3pp), as well as expecting inflation to overshoot the target from the end of Q3 2016.

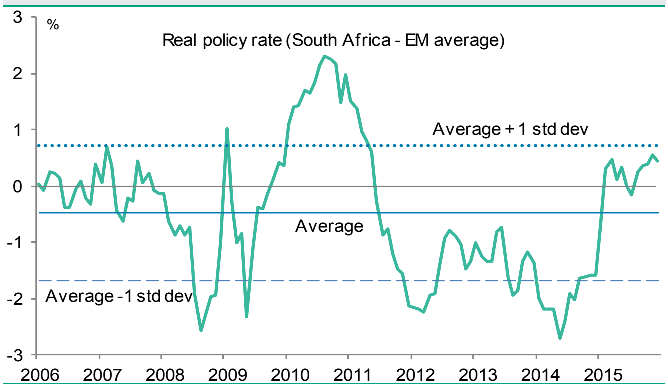
A possible VAT hike poses upside risks to our inflation estimates. A weaker growth outlook, pressure on tax revenue and a need to regain fiscal credibility and trust suggest to us a likely 1pp rise in the rate of VAT from April and expenditure cuts in the budget on 24 February.

Chart 1: Food prices major inflation headache



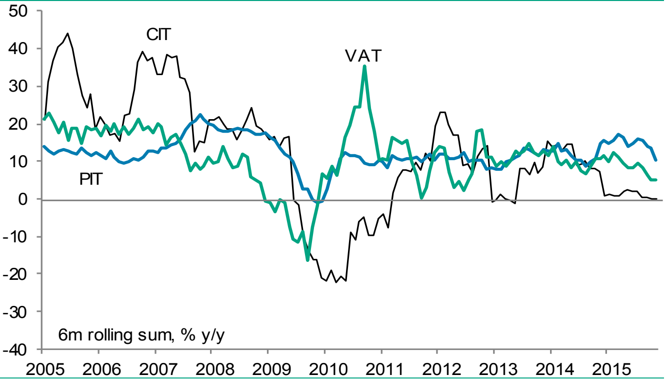
Source: FAO, Stats SA, BNP Paribas Securities

Chart 2: Real policy rates versus EM average



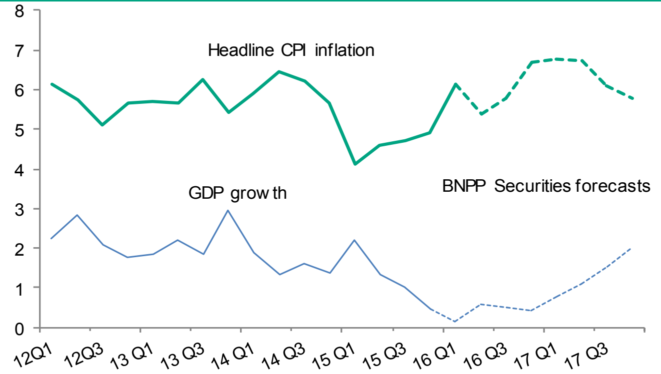
Source: Bloomberg, Macrobond, BNP Paribas Securities

Chart 3: Tax-revenue pressure signals VAT hike



Source: Bloomberg, Macrobond, BNP Paribas Securities

Chart 4: Growth and inflation (% y/y)



Source: SARB, Stats SA, BNP Paribas Securities forecasts

Jeffrey Schultz

South Africa: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP	2.2	1.5	1.3	0.4	1.4	2.2	1.3	1.0	0.4	0.1	0.6	0.5	0.4
Private consumption	2.9	1.4	1.5	1.1	1.5	1.6	1.7	1.5	1.4	1.1	1.0	1.1	1.2
Fixed investment	7.6	-0.3	1.0	0.6	1.1	-0.2	1.3	1.7	1.1	0.8	0.6	0.5	0.5
Exports	4.6	2.6	9.7	2.2	2.4	6.2	14.0	11.2	7.4	5.0	1.7	1.0	1.0
Imports	1.8	-0.4	4.9	1.2	1.8	5.0	6.8	4.4	3.4	0.2	2.0	1.3	1.5

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation													
CPI	5.8	6.1	4.6	6.1	6.5	4.1	4.6	4.7	4.9	6.4	5.5	5.9	6.8
CPI (2)	5.4	5.3	5.2	6.9	6.0	4.0	4.7	4.6	5.2	6.1	5.4	6.3	6.9
Core CPI (2)	5.3	5.7	5.2	5.9	5.8	5.7	5.5	5.3	5.2	5.6	5.7	5.8	5.9

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (USD bn)	-7.1	-6.4	-1.9	-3.3	-4.2	-1.4	0.3	-0.3	-0.4	-0.8	-0.6	-0.9	-1.0
Current account (USD bn)	-21.1	-19.1	-13.0	-11.1	-12.5	-3.9	-2.6	-3.2	-3.3	-2.6	-2.7	-2.8	-3.0
Current account (% of GDP)	-5.8	-5.4	-4.1	-4.3	-4.5	-4.7	-3.1	-4.1	-4.5	-4.0	-4.3	-4.2	-4.5

	Year					2015				2016			
	13	14 (1)	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
General govt. budget (% of GDP) (3)	-4.4	-4.4	-4.3	-4.2	-4.0	-	-	-	-	-	-	-	-
Primary budget (% of GDP) (3)	-1.6	-1.4	-1.3	-0.9	-0.6	-	-	-	-	-	-	-	-
General govt. debt (% of GDP)	43.9	46.8	49.4	49.5	50.6	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates and bonds (2)													
Policy rate (%)	5.00	5.75	6.25	7.50	8.00	5.75	5.75	6.00	6.25	7.00	7.00	7.25	7.50
3-month rate (%)	5.22	6.13	6.63	7.95	8.45	6.10	6.14	6.31	6.63	7.40	7.45	7.70	7.95
5-year bond (%)	7.18	7.43	9.41	9.00	9.00	7.30	7.93	8.07	9.41	8.70	8.80	8.80	9.00
10-year bond (%)	8.24	7.96	9.76	9.50	9.50	7.80	8.27	8.44	9.76	9.20	9.30	9.50	9.50
FX rates (2)													
USDZAR	10.47	11.57	15.47	16.70	16.40	12.13	12.17	13.85	15.47	16.50	16.50	16.50	16.70

Footnotes: (1) forecast, (2) end period, (3) main budget balance based on National Treasury financial year

Figures are year-on-year percentage changes unless otherwise indicated

Source: Stats SA, SARB, BNP Paribas Securities South Africa

Jeffrey Schultz February 2016

Saudi Arabia: Time for an oil change

Slowing growth

The authorities' fiscal-consolidation efforts, after low oil prices caused a collapse in fiscal revenues, will take their toll on economic activity. Oil production will remain flat at best this year and the economy is likely to see its first recession since the Lehman crisis.

Off-budget fiscal spending

Even though the announced budget deficit was 15% of GDP in 2015, total financing was worth 20% of GDP, as some expenditure was recorded 'off budget'. The budget for 2016 foresees a 14% decline in government spending, but some overrun seems likely.

Removal of subsidies

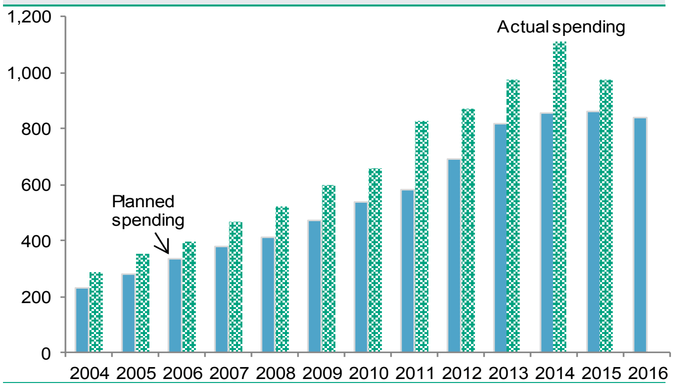
Gasoline and utility prices were raised at the turn of the year on the back of a reduction in subsidies, with further steps to follow. Plans for a region-wide VAT are also taking shape. Fiscal restraint is likely to cool domestic demand and limit demand-driven pressure on prices.

Where we are different

We still expect the authorities to maintain the exchange-rate peg, as the costs of devaluation far exceed any benefits. Nevertheless, to convince the markets of the peg's sustainability, the authorities need to speed up their fiscal-consolidation efforts, in our view.

This, in turn, would lead to a sizeable contraction in the non-oil sector. Accordingly, we expect Saudi Arabia to post a 1% contraction in GDP for 2016, contrary to the market's consensus view of a growth rate of 2%.

Chart 1: Fiscal spending (SAR bn)



Source: MoF, Haver, TEB

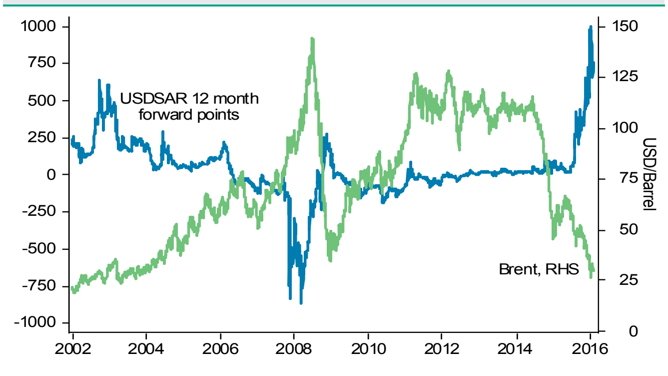
Saudi Arabia: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Real GDP (% y/y)	2.7	3.6	3.4	-1.0	0.3
CPI (% y/y)	3.5	2.7	2.3	2.6	2.9
CPI (% y/y) (2)	3.0	2.4	2.3	2.9	3.0
Current account (% of GDP)	18.2	10.2	-6.3	-12.2	-8.0
Budget balance (% of GDP)	6.5	-2.3	-15.0	-20.6	-17.7
Primary budget (% of GDP)	6.6	-2.2	-14.8	-20.5	-17.3
Gross govt. debt (% of GDP) (2)	2.2	1.6	5.8	14.5	20.7
Interest rate (%) (2)	2.00	2.00	2.00	2.00	2.00
USDSAR (2)	3.75	3.75	3.75	3.75	3.75

Footnotes: (1) forecast, (2) end period

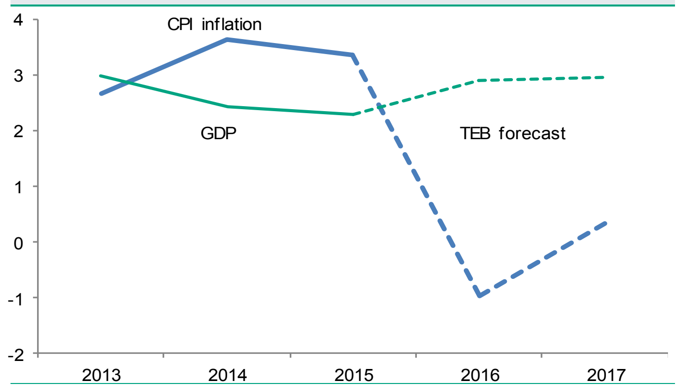
Source: Haver, CDSI, SAMA, TEB

Chart 2: USDSAR 12-month forward points



Source: Haver, Bloomberg, TEB

Chart 3: Growth and inflation (% y/y)



Source: Haver, CDSI, TEB forecasts

IMPORTANT DISCLOSURE:

This analysis has been produced by Türk Ekonomi Bankasi A.S. ("TEB") and has been reviewed, but not amended, by BNP Paribas. BNP Paribas is an indirect shareholder of TEB. This analysis does not contain investment research recommendations.

Selim Çakır / Emre Tekmen

UAE: Land of retrenchment

Growth to see a soft patch

Non-oil sector growth continues to soften, as January's PMI reading fell to its lowest level since 2012. After expanding by 5% in 2015, oil output growth is set to slow as well. Accordingly, we forecast GDP growth at 2% for 2016 and 2.4% for 2017, down from an estimated 3.7% in 2015.

Inflation to remain low

While the removal of fuel subsidies led to an initial 24% increase in fuel prices in August, this was more than offset later, thanks to a renewed decline in crude-oil prices. The base effects from the utility-price rises in early 2015 should lead to a sharp decline in inflation in Q1 2016.

Tight fiscal rein still needed

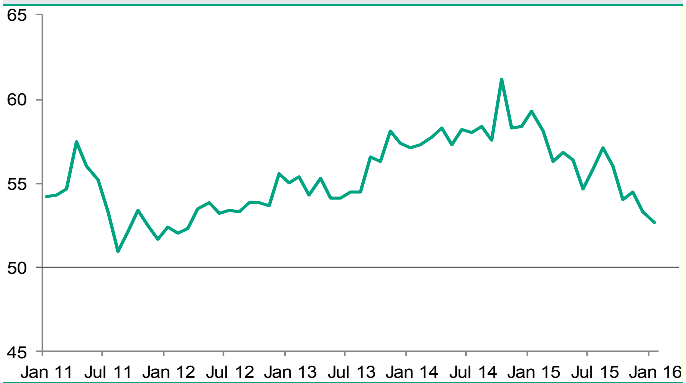
Despite a greater diversification towards non-oil sectors than in other GCC countries, the UAE is still highly dependent on oil revenue. Against this backdrop, a quick response by the authorities and a recovery in oil prices should help to keep the fiscal balances in check.

Where we are different

All in all, we expect the fiscal deficit to widen to 9.1% of GDP in 2016, before falling back to 4.5% of GDP in 2017, while the market expects a much narrower fiscal deficit of 2% in 2016. Despite all the efforts, we estimate the breakeven oil-price fiscal balance at USD 62/bbl.

While the non-oil sector accounts for almost 80% of GDP, the UAE is not fully immune to the drop in oil prices. The fiscal-consolidation efforts are likely to be a drag on non-oil activity as well. Hence, we see the market's 2016 GDP growth expectation of 3% on the optimistic side.

Chart 1: PMI



Source: Markit, TEB

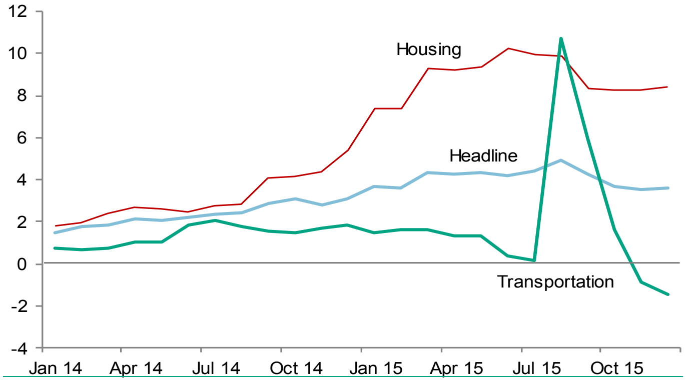
UAE: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Real GDP (% y/y)	4.3	4.6	3.7	2.0	2.4
CPI (% y/y)	1.1	2.3	4.1	3.5	3.0
CPI (% y/y) [2]	1.5	3.1	3.6	3.4	2.7
Current account (% of GDP)	18.4	13.7	5.8	1.0	2.8
Budget balance (% of GDP)	10.4	5.0	-5.1	-9.1	-4.5
Primary budget (% of GDP)	10.8	5.2	-4.9	-8.8	-4.3
Gross govt. debt (% of GDP)	15.9	15.7	17.7	18.6	17.7
Interest rate (%) [2]	1.00	1.00	1.25	1.25	1.25
USDAED [2]	3.67	3.67	3.67	3.67	3.67

Footnotes: (1) forecast, (2) end period

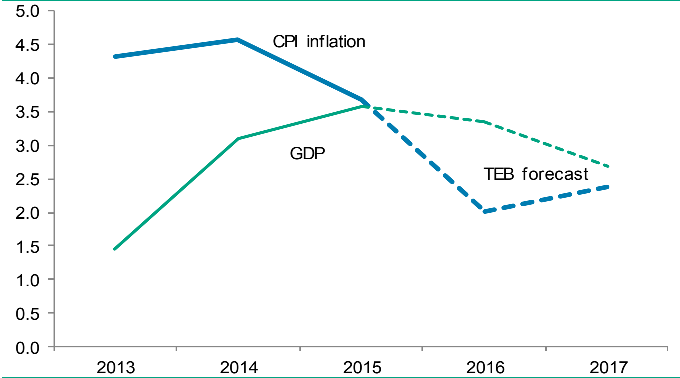
Source: TEB, National Bureau of Statistics, Central Bank of UAE, Macrobond

Chart 2: Inflation (% y/y)



Source: National Bureau of Statistics, Haver, TEB

Chart 3: Growth and inflation (% y/y)



Source: National Bureau of Statistics, TEB forecasts

IMPORTANT DISCLOSURE:

This analysis has been produced by Türk Ekonomi Bankasi A.S. ("TEB") and has been reviewed, but not amended, by BNP Paribas. BNP Paribas is an indirect shareholder of TEB. This analysis does not contain investment research recommendations.

Selim Çakır / Emre Tekmen

Qatar: Low-energy pressure

Spending-led growth

The non-hydrocarbon sector is set to continue as the main contributor to growth. Despite the contraction in oil output, hydrocarbon activity is likely to expand, too, as a new gas supply from the Barzan fields should prompt a modest increase in Qatari hydrocarbon output in 2016.

Inflation set to rise slightly

Consumers benefitted from the appreciation of the US dollar in 2015, as the cost of imported items such as food, clothing and furniture was subdued. Still, upward pressure on rental inflation should remain high, driven by population growth, and we expect inflation to hover around 3%.

Oil prices hit balances

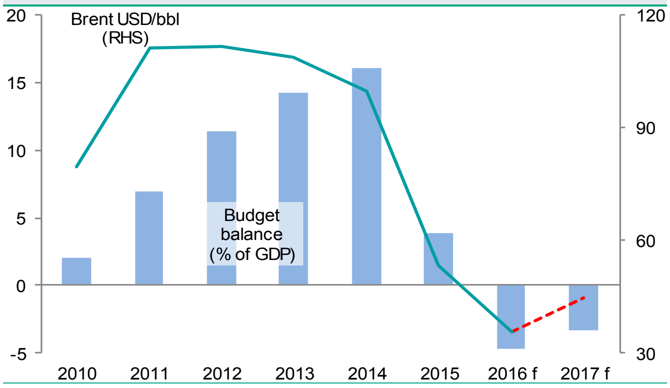
Low energy prices in 2016 are set to see Qatar post its first external and fiscal deficits since 1999. The government plans to finance the shortfall through debt issuance in local and international financial markets – most probably using *sukuk* bonds.

Where we are different

We see the budget breakeven oil price at USD 54/bbl and the fiscal deficit at around 5% of GDP in 2016, visibly above the consensus. The recent hike in domestic gasoline prices and a relatively conservative budget on spending should help contain the fiscal deficit at that level.

We project the current account will move from a surplus of 6.2% of GDP in 2015 to a deficit of 7.6% in 2016, whereas the consensus is still hoping for a surplus of 1.1%. The sizeable amount of reserves should, however, enable the country to withstand adverse conditions.

Chart 1: Budget balance and oil price



Source: Haver, Reuters, TEB

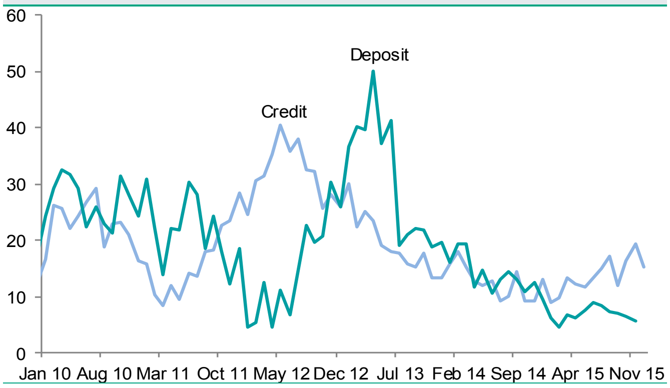
Qatar: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Real GDP (% y/y)	4.6	4.0	3.8	4.8	4.2
CPI (% y/y)	3.1	3.3	1.7	2.8	3.0
CPI (% y/y) [2]	2.5	2.9	2.7	2.9	3.2
Current account (% of GDP)	30.0	23.6	6.2	-7.6	-7.1
Budget balance (% of GDP)	14.3	16.1	3.8	-4.7	-3.8
Primary budget (% of GDP)	15.3	17.1	3.8	-3.7	-3.0
Gross govt. debt (% of GDP) [2]	32.6	31.0	31.4	39.8	39.1
Interest rate (%) [2]	4.50	4.50	4.50	4.50	4.50
USDQAR [2]	3.64	3.64	3.64	3.64	3.64

Footnotes: (1) forecast, (2) end period

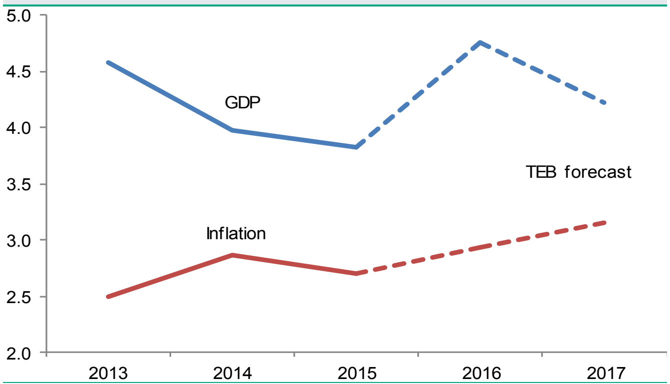
Source: Qatari ministry of planning and statistics, TEB forecasts

Chart 2: Credit and deposit growth (y/y %)



Source: Haver, TEB

Chart 3: Growth and inflation (%)



Source: Qatari ministry of planning and statistics, TEB forecasts for 2016-17

IMPORTANT DISCLOSURE:

This analysis has been produced by Türk Ekonomi Bankasi A.S. ("TEB") and has been reviewed, but not amended, by BNP Paribas. BNP Paribas is an indirect shareholder of TEB. This analysis does not contain investment research recommendations.

Selim Çakır / Tuğba Talınlı

Australia: A fine balance

Services leading the way

Following significant depreciation of the exchange rate over the past two years, Australia's services exports have emerged as an important partial offset to the drag on headline growth from declining resources investment.

Good job prospects

As a result, employment prospects are positive. While the signals from official data are clouded by methodological changes, other indicators suggest that the unemployment rate is at risk of falling more quickly than the Reserve Bank of Australia (RBA) expects.

Downbeat iron-ore prices

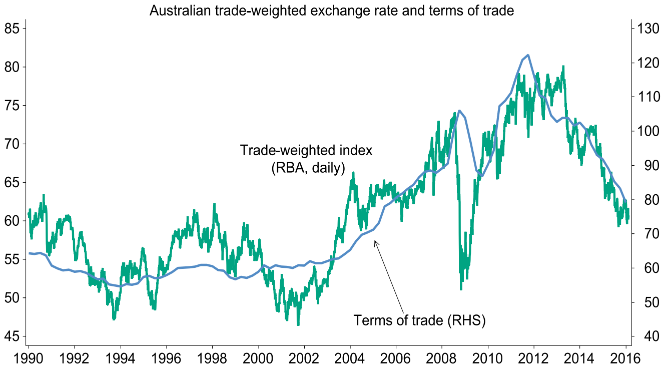
The combination of a weak industrial outlook in China and increased supply from Australian miners means iron-ore prices remain skewed to the downside; a marginal cost of production below USD 30/t provides scope for output to expand further.

Where we are different

The market has priced in a fluctuating 10-50bp of easing over the coming 12 months, encouraged by the RBA's assessment that "continued low inflation may provide scope for easier policy". However, we expect the RBA to leave rates on hold for an extended period.

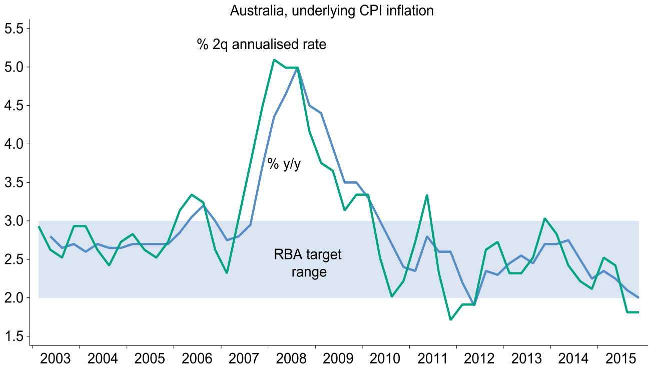
The exchange rate looks set to continue to weaken in line with the fall in the terms of trade, helping to lift growth back to trend. The pass-on effects from depreciation should see inflation rise towards the middle of the 2-3% target band (consensus sees 2.2% in 2016, 2.5% in 2017).

Chart 1: Commodity currency



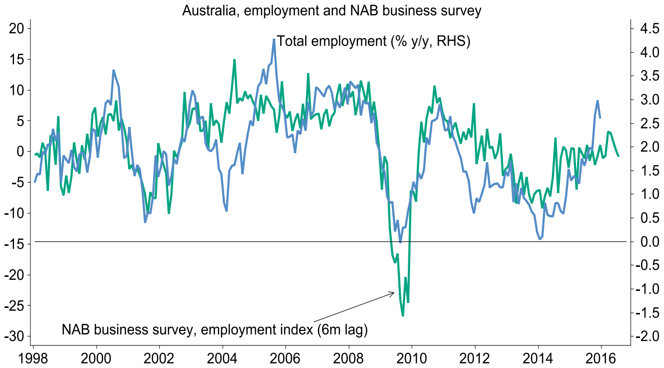
Source: RBA, Bloomberg, Macrobond, BNP Paribas

Chart 2: Room for RBA to move



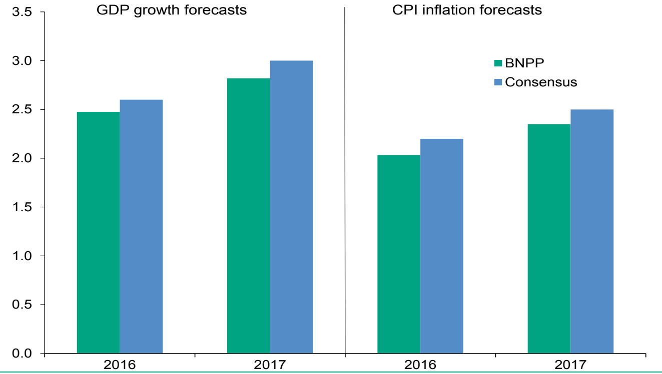
Source: RBA, ABS, Macrobond, BNP Paribas

Chart 3: Labour market in good shape



Source: NAB, ABS, Macrobond, BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: BNP Paribas forecasts, Bloomberg consensus

Australia: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16(1)	17(1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-	-	0.9	0.3	0.9	0.3	0.7	0.7	0.7	0.7
GDP	2.0	2.6	2.2	2.5	2.8	2.1	1.9	2.5	2.4	2.2	2.6	2.4	2.8
Dom. demand ex stocks	0.6	1.1	0.8	1.6	2.4	0.5	1.1	0.8	0.7	1.0	1.0	2.2	2.4
Private consumption	1.7	2.7	2.6	2.7	2.8	2.6	2.5	2.7	2.5	2.6	2.7	2.6	2.7
Public consumption	1.2	0.6	2.8	1.6	1.2	1.0	3.5	3.6	3.3	2.8	1.4	1.0	1.1
Fixed investment	-1.8	-1.9	-4.3	-0.6	2.3	-4.1	-3.3	-4.9	-4.9	-3.7	-2.8	1.9	2.6
Stocks (contrib. to growth)	-0.4	0.1	0.0	0.0	0.0	0.4	-0.3	-0.6	0.2	-0.2	-0.1	0.0	0.0
Exports	5.9	6.7	6.1	5.9	6.1	7.6	4.5	6.5	5.9	3.6	8.7	5.5	6.0
Imports	-1.8	-1.6	1.1	2.6	4.4	3.3	0.3	-1.2	2.1	0.1	1.0	4.8	4.5
Industrial production	2.3	4.6	1.4	1.7	2.4	3.1	1.2	0.4	0.9	0.3	2.0	2.1	2.2
Savings ratio (%)	10.0	9.3	8.2	7.6	7.0	9.0	9.4	8.4	8.2	8.0	7.9	7.7	7.6

	Year					2015				2016			
	13	14	15 (1)	16(1)	17(1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	2.4	2.5	1.5	2.0	2.4	1.3	1.5	1.5	1.7	1.9	1.9	2.0	2.3
Underlying CPI	2.6	2.6	2.2	2.1	2.4	2.3	2.2	2.1	2.0	1.9	2.0	2.2	2.3
Employment	0.9	0.7	1.9	1.9	1.7	1.3	1.6	1.9	2.6	2.1	2.1	2.0	1.3
Unemployment rate (%)	5.9	6.1	5.8	5.5	5.2	6.1	6.0	6.1	5.8	5.7	5.6	5.5	5.5

	Year					2015				2016			
	13	14	15 (1)	16(1)	17(1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (AUD bn)	-11.1	-8.9	-32.7	-30.0	-22.0	-4.7	-11.0	-7.5	-9.5	-8.0	-7.9	-7.3	-6.8
Current account (AUD bn)	-53.3	-48.3	-55.6	-39.3	-31.3	-13.4	-20.5	-9.8	-11.8	-10.3	-10.3	-9.6	-9.1
Current account (% of GDP)	-3.4	-3.0	-3.4	-2.3	-1.8	-3.3	-5.1	-2.4	-2.9	-2.5	-2.5	-2.3	-2.1

	Year					2015				2016			
	13	14	15 (1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (AUD bn)	-43.7	-39.9	-35.8	-32.8	-17.4	-	-	-	-	-	-	-	-
General govt. budget (% of GDP)	-2.8	-2.5	-2.2	-1.9	-1.0	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-2.0	-1.9	-1.4	-0.7	0.1	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	30.7	34.3	38.1	40.2	41.4	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16(1)	17(1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest & FX rates (2)													
Cash rate (%)	2.50	2.50	2.00	2.00	2.00	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
3-month rate (%)	2.60	2.77	2.33	2.19	2.18	2.23	2.13	2.16	2.33	2.18	2.17	2.16	2.19
2-year rate (%)	2.68	2.19	1.99	1.50	1.85	1.72	2.01	1.81	1.99	1.85	1.65	1.50	1.50
5-year rate (%)	3.43	2.30	2.20	1.70	2.00	1.80	2.30	2.10	2.20	2.00	1.90	1.80	1.70
10-year rate (%)	4.23	2.81	2.80	2.00	2.50	2.32	3.01	2.61	2.80	2.50	2.25	2.15	2.00
AUDUSD	0.89	0.82	0.69	0.65	0.63	0.76	0.77	0.70	0.69	0.68	0.67	0.65	0.65

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Reserve Bank of Australia, Australian Bureau of Statistics, BNP Paribas forecasts

India: Beacon of stability

Temporarily weak activity

Latest industrial data have been poor, although surprises are largely due to floods in Chennai. PMIs suggest the hit is fading while services remain solid. GDP growth looks on course to top 7% in FY2016 and FY2017 (fiscal years to March), the fastest rate among emerging markets.

Inflation broadly on target

Lower oil prices for longer mean any rebound in energy inflation now comes late in 2016. The latest super-spike in pulse prices is also fading in line with the historical record. Despite government pay hikes, inflation should be close to the central bank's target of 5% by early 2017.

Post-budget rate cut?

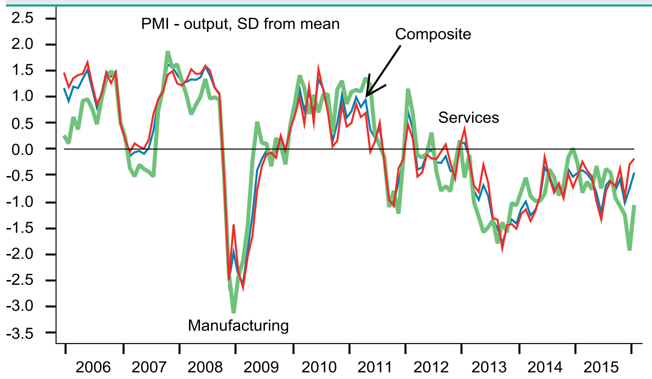
The 7th Pay Commission hikes threaten the fiscal deficit target of 3.5% of GDP for FY2017. A prudent budget that sticks close to existing deficit targets – as we expect – should see the Reserve Bank of India (RBI) quickly 'reward' the government with a 25bp rate cut.

Where we are different

Our FY2017 growth forecast remains (just) above consensus expectation of 7.8%, as we view current weakness as largely erratic. Our FY2017 CPI inflation forecast is an above-consensus 5.8%; we expect a pickup in housing inflation to be only partly offset by the swing in pulses.

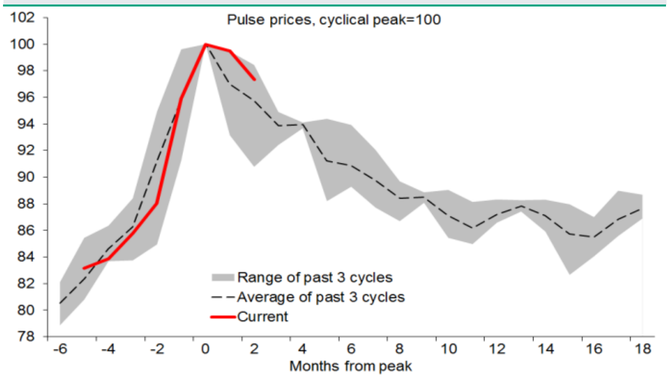
The consensus is expecting only about a further 25bp of rate cuts by the RBI over the next year. With markets (and ourselves) moving to price out further Fed tightening and the USD softening, however, RBI's policy space is increasing. We see scope for the repo rate to be cut to 6.25%.

Chart 1: Two-speed economy



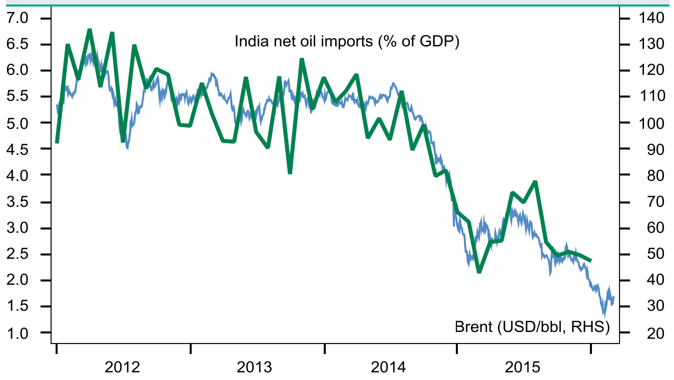
Source: BNP Paribas, Markit, Macrobond

Chart 2: Disinflationary force from pulses



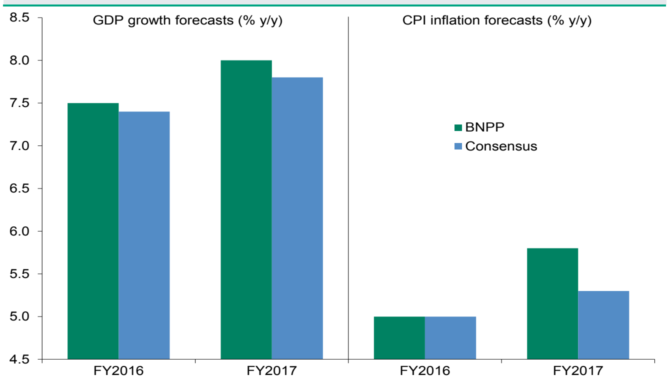
Source: BNP Paribas, CSO

Chart 3: Oil windfall



Source: BNP Paribas, Bloomberg, Macrobond

Chart 4: Growth and inflation forecasts



Source: BNP Paribas forecasts, Bloomberg consensus

India: Economic and financial forecasts

	Fiscal year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP	5.6	6.6	7.2	7.5	8.0	6.7	7.6	7.7	7.3	7.5	7.5	7.6	8.7
GVA	5.4	6.3	7.1	7.3	7.9	6.2	7.2	7.5	7.1	7.3	7.2	7.3	8.4
Agriculture & allied activities	1.2	4.0	1.3	1.1	4.3	0.1	2.9	2.6	-0.1	-0.2	0.3	1.6	6.9
- Agriculture & forestry & fishing	1.5	4.2	-0.2	0.2	3.7	-1.7	1.6	2.0	-1.0	-0.9	-0.4	-0.2	6.6
- Mining & quarrying	-0.5	3.0	10.8	5.9	7.4	10.1	8.6	5.0	6.5	3.5	3.2	9.6	8.4
Industry	4.0	5.3	5.4	7.9	7.5	5.2	6.6	6.5	9.2	9.2	6.3	7.9	7.5
- Manufacturing	6.0	5.6	5.5	9.6	8.7	6.6	7.3	9.0	12.6	9.7	8.3	8.8	8.2
- Electricity, gas & water supply	2.8	4.7	8.0	7.0	6.7	4.4	4.0	7.5	6.0	10.6	8.4	5.0	7.3
- Construction	0.6	4.6	4.4	4.8	5.2	2.6	6.0	1.2	4.0	8.0	1.9	7.0	6.0
Services	8.1	7.8	10.3	9.2	9.4	9.3	9.0	9.4	9.4	9.0	9.9	8.4	9.6
- Trade, hotel, transport & comm.	9.7	7.8	9.8	9.0	9.1	13.1	10.5	8.1	10.1	7.6	7.9	10.6	9.3
- FIRE & business	9.4	10.1	10.6	10.7	10.8	9.0	9.3	11.6	9.9	12.0	12.9	7.1	11.6
- Public admin., defence & other ser.	4.1	4.5	10.7	7.0	7.5	4.1	6.1	7.1	7.5	7.0	7.5	7.9	7.0
Private consumption	5.3	6.8	6.2	6.3	7.5	6.6	6.4	5.6	6.4	6.7	6.3	6.7	9.9
Public consumption	0.5	0.4	12.8	4.0	4.8	-3.3	1.0	4.3	4.7	6.7	4.4	5.5	4.0
Fixed investment	4.9	3.4	4.9	5.5	6.7	5.4	5.2	7.6	2.8	6.3	5.4	5.4	9.4
Exports	6.7	7.8	1.7	-5.9	2.9	-6.3	-5.8	-4.3	-9.4	-4.0	-2.6	0.5	7.2
Imports	6.0	-8.2	0.8	-5.7	6.5	-6.1	-5.0	-3.4	-10.8	-3.2	-1.8	1.1	16.3
Memo:													
Non-agricultural GDP	6.3	6.7	8.6	8.6	8.7	7.9	8.2	8.3	9.2	8.9	8.5	8.3	8.8
Nominal GDP	13.9	13.3	10.8	8.7	12.6	9.2	8.7	6.4	9.2	10.3	12.6	13.1	12.4
Nominal GDP (INR trn)	99.5	112.7	124.9	135.8	152.8	33.3	31.7	32.5	34.8	36.8	35.7	36.8	39.1

	Calendar year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
GDP	6.3	7.0	7.3	7.9	8.1	6.7	7.6	7.7	7.3	7.5	7.5	7.6	8.7
GVA	6.2	6.8	7.0	7.6	8.0	6.2	7.2	7.5	7.1	7.3	7.2	7.3	8.4

	Calendar year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation													
CPI - All India	9.9	6.6	4.9	5.8	5.2	5.3	5.1	3.9	5.3	5.5	5.6	6.3	5.8
CPI - All India (ex. Food & Energy)	8.2	6.6	4.4	5.3	5.7	4.2	4.6	4.3	4.6	4.6	4.6	5.9	6.3
WPI	6.3	3.9	-2.8	1.3	4.3	-1.8	-2.2	-4.6	-2.7	-0.6	-0.1	2.8	3.1
WPI (Food)	10.4	5.2	2.6	6.0	5.8	5.3	2.4	-0.8	3.7	4.6	5.5	8.4	5.3
WPI (ex. Food & Energy)	3.2	2.9	-2.5	0.9	3.0	-2.0	-2.1	-3.2	-2.9	-1.0	0.0	1.6	2.9
WPI (non-food manufactured products)	3.0	3.3	-1.1	0.7	2.9	0.2	-0.6	-1.8	-2.1	-1.4	0.1	1.6	2.7

	Fiscal year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
External trade													
Trade balance (USD bn)	-195.7	-147.6	-144.9	-131.1	-141.0	-	-	-	-	-	-	-	-
Oil balance (USD bn)	-103.4	-101.5	-82.4	-54.3	-43.3	-	-	-	-	-	-	-	-
Current account (USD bn)	-87.8	-32.4	-26.7	-11.4	-13.0	-	-	-	-	-	-	-	-
Current account (% of GDP)	-4.8	-1.7	-1.3	-0.6	-0.6	-	-	-	-	-	-	-	-

	Fiscal year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
Central govt. budget (INR trn)	-4.9	-5.0	-5.1	-5.3	-5.3	-	-	-	-	-	-	-	-
Central govt. budget (% of GDP)	-4.9	-4.5	-4.1	-3.9	-3.5	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	-1.8	-1.1	-0.8	-0.7	-0.4	-	-	-	-	-	-	-	-
Gross central govt. debt (% of GDP) (2)	47.6	47.1	46.4	46.5	45.3	-	-	-	-	-	-	-	-

	Calendar year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest and FX rates (2)													
Repo rate (%)	7.75	8.00	6.75	6.25	6.25	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25
3-month rate (%)	8.98	8.54	7.42	7.15	7.15	8.64	8.14	7.36	7.42	7.90	7.40	7.10	7.15
2-year (%)	8.69	7.98	7.49	6.75	7.15	7.84	7.80	7.48	7.49	7.20	7.00	6.90	6.75
10-year (%)	8.92	7.86	7.76	7.35	7.90	7.74	7.86	7.54	7.76	7.65	7.50	7.45	7.35
USDINR	61.8	63.0	67.0	68.8	70.0	62.5	63.6	65.6	66.2	67.3	67.8	68.2	68.8

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: RBI, ministry of statistics and programme implementation, finance ministry, statistics office, BNP Paribas forecasts

South Korea: Policy paralysis

One disappointment …

The myriad headwinds that faced the South Korean economy in 2015 are likely to prove just as stiff this year. January's 'surprise' easing by the Bank of Japan set the tone on the external front, placing significant pressure on the Bank of Korea (BoK) to react with an easing of its own.

… after another

South Korea is a large net importer of resources, so weak global commodity prices will continue to drag down headline inflation. Core inflation is also under pressure, however, with falling capacity utilisation driving a widening output gap.

Fiscal policy paralysis

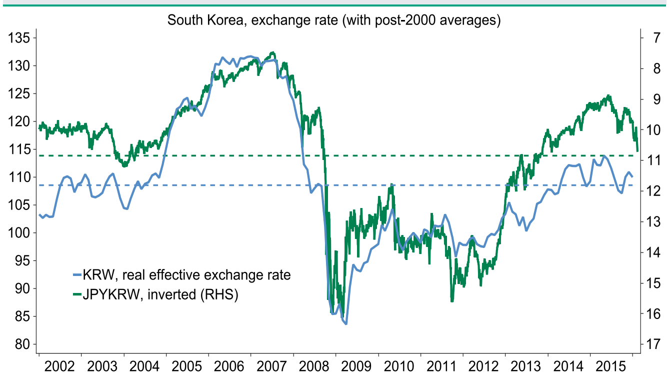
The government has announced a 'stimulus' package. However, the core initiative merely involves spending 25% of its already-planned 2016 budget in Q1. The result is likely to be another damp squib, leaving pressure on the BoK to provide the stimulatory sparks.

Where we are different

We have further lowered our growth forecasts and now expect 2.4% in 2016 and in 2017. Consensus and BoK forecasts, in contrast, are for growth to accelerate to around 3.0% in 2016, from the below-trend 2.6% recorded last year.

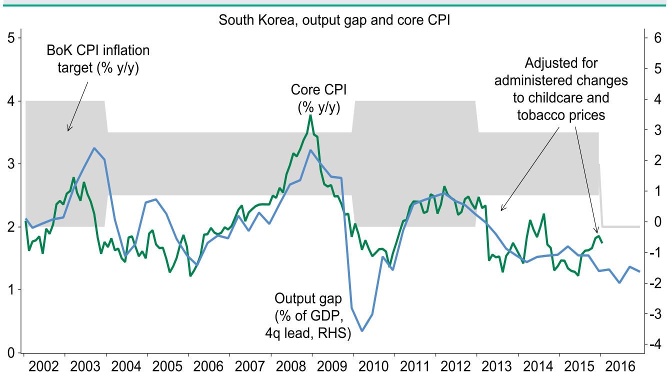
We are also well below consensus on inflation, forecasting headline inflation to fall to 0.9% in 2016 (consensus: 1.5%) and to track well below the BoK's 2% target. The BoK will have little choice to ease and we expect two 25bp cuts, with the first in March.

Chart 1: Still overvalued



Source: Bloomberg, Barclays, Macrobond, BNP Paribas

Chart 2: Disinflationary slack

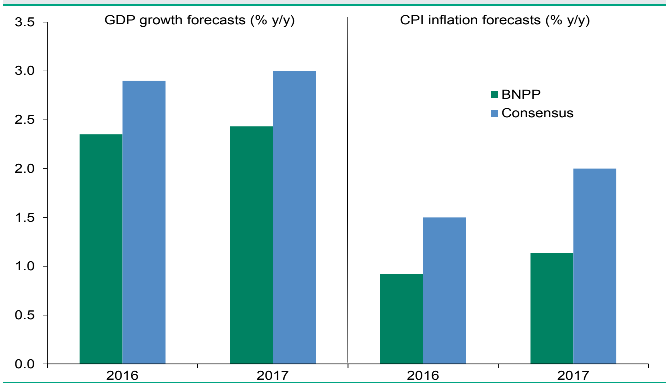


Source: BoK, Macrobond, BNP Paribas

Chart 3: Global synchronisation

Source: BoK, CPB, Macrobond, BNP Paribas

Chart 4: Growth and inflation



Source: Bloomberg consensus, BNP Paribas forecasts

South Korea: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q)	-	-	-	-	-	0.8	0.3	1.3	0.6	0.2	0.7	0.6	0.6
GDP	2.9	3.3	2.6	2.4	2.4	2.4	2.2	2.7	3.0	2.4	2.8	2.1	2.1
Domestic demand ex. stocks	2.5	2.4	2.8	2.1	2.3	2.0	2.2	3.1	3.9	2.3	2.7	1.4	1.9
Private consumption	1.9	1.8	2.1	1.4	1.6	1.6	1.7	2.1	3.2	1.5	2.3	1.4	0.3
Public consumption	3.3	2.8	3.3	4.0	2.9	3.2	3.4	2.9	3.9	4.5	4.6	3.7	3.1
Fixed investment	3.3	3.1	3.6	2.3	3.2	2.2	2.4	5.0	5.0	2.5	2.5	0.2	4.0
Stocks (contrib. to growth, y/y)	0.3	-0.1	0.6	0.0	0.0	1.0	1.2	0.8	0.6	0.0	0.0	0.0	0.0
Exports	4.3	2.8	0.4	2.9	2.7	0.2	-0.9	0.3	1.9	2.3	2.7	4.1	2.7
Imports	1.7	2.1	3.0	4.1	2.4	1.8	1.5	3.2	5.5	5.1	4.7	4.4	2.3
Net trade (contrib. to growth, y/y)	0.0	0.0	0.0	0.0	0.0	1.8	2.0	2.9	3.5	2.1	2.5	1.3	1.7
Industrial production	0.4	0.5	-0.9	1.2	1.6	-1.3	-1.6	2.3	-2.1	0.2	1.0	-0.7	1.6
Memo:													
Nominal GDP (KRW trn)	1429	1485	1556	1603	1654	385	388	392	391	397	401	403	402
Nominal GDP	3.8	3.9	4.8	3.0	3.2	4.2	5.1	5.3	4.6	3.1	3.3	2.7	2.8

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	1.3	1.3	0.7	0.9	1.1	0.4	0.7	0.6	1.3	0.8	0.7	1.2	1.1
Core CPI (ex. food & energy)	1.6	1.7	2.5	1.6	1.4	2.3	2.2	2.6	2.8	1.7	1.8	1.5	1.4
Employment	1.7	1.9	1.3	1.2	1.0	1.4	1.3	1.3	1.4	1.3	1.4	1.2	1.0
Unemployment rate (%) (2)	3.1	3.5	3.6	3.4	3.2	3.7	3.9	3.5	3.3	3.5	3.7	3.3	3.1

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (USD bn)	82.8	88.9	120.7	116.0	104.6	28.7	32.3	30.2	29.6	25.2	31.1	30.9	28.7
Current account (USD bn)	81.3	84.4	108.3	100.6	90.8	30.0	26.5	28.2	23.6	21.7	27.1	27.0	24.8
Current account (% of GDP)	6.2	5.9	7.8	7.0	6.1	8.5	7.5	8.1	6.9	5.9	7.6	7.6	7.0

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial variables													
General govt. budget (KRW trn)	12.4	17.9	22.2	20.9	18.8	-	-	-	-	-	-	-	-
General govt. budget (% of GDP)	0.9	1.2	1.4	1.3	1.1	-	-	-	-	-	-	-	-
General govt. primary budget (% of GDP)	0.5	0.2	0.5	0.4	0.2	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	34.8	36.5	34.9	33.1	31.6	-	-	-	-	-	-	-	-

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest and FX rates (2)													
7-day repo rate (%)	2.50	2.00	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.25	1.00	1.00	1.00
3-month rate (%)	2.80	2.29	1.89	1.30	1.28	1.99	1.72	1.68	1.89	1.51	1.26	1.27	1.30
10-year rate (%)	3.65	2.68	2.18	1.85	2.10	2.28	2.47	2.22	2.18	1.85	2.10	1.95	1.85
USDKRW	1,050	1,091	1,200	1,200	1,250	1,108	1,118	1,186	1,176	1,160	1,150	1,180	1,200

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Bank of Korea, Statistics Korea, BNP Paribas forecasts

Taiwan: Too early to sound the all-clear

Recessionary forces linger

Having emerged from a technical recession late in 2015, Taiwan is still afflicted by recessionary conditions. With industrial output and exports still falling at present, thanks to strong links to the Chinese mainland and low external competitiveness, 2016 growth should remain sub-par.

CPI still flirts with deflation

The headline CPI has recovered from outright deflation, superficially helped by base effects from energy prices. With the output gap still wide and wage growth slackening, however, core inflation will have to go down before it goes up. We see inflation remaining weak during 2016.

Monetary policy stimulus

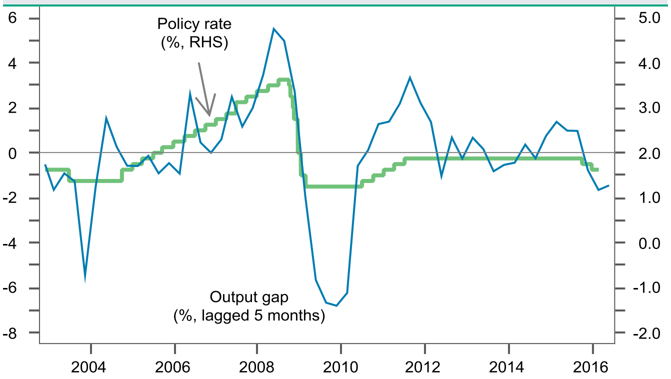
The new administration has little room to deliver big fiscal stimulus: while the government has a debt limit of 40.6% of GDP, pension costs will continue to rise as Taiwan's population ages. The burden remains on monetary policy to do the stimulatory heavy lifting.

Where we are different

By various metrics, Taiwan remains one of the regional economies most exposed to a slowing Chinese economy. Our below-consensus Chinese growth forecasts effectively also leave us more downbeat than the consensus on both Taiwanese growth and inflation for 2016.

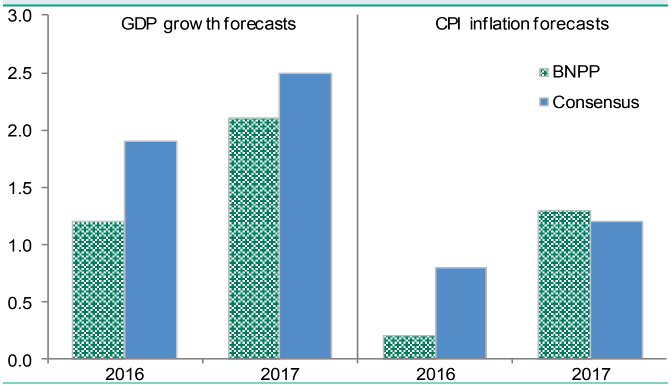
Weak growth, low inflation and healthy external positions, as well as unexpectedly dovish major central banks, should give more scope for easing than the consensus appreciates. We see two rate cuts from Taiwan's central bank this year, with the initial 12.5bp to come in March.

Chart 1: Output gap and policy rate



Source: BNP Paribas, CBC, DGBAS, Macrobond

Chart 2: Growth and inflation forecasts (% y/y)



Source: BNP Paribas forecasts, Bloomberg consensus

Taiwan: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Components of growth					
Total GDP	2.2	3.9	0.7	1.2	2.1
Dom. demand ex stocks	2.5	3.0	1.7	1.8	1.9
Private consumption	2.3	3.3	2.3	2.2	2.2
Public consumption	-0.8	3.6	-0.4	1.8	1.2
Fixed investment	5.3	1.8	1.5	1.1	1.4
Stocks (contrib. to growth)	-0.5	0.5	-0.1	0.0	0.0
Exports	3.5	5.9	-0.2	1.3	3.5
Imports	3.4	5.7	0.9	2.2	3.3
Inflation & labour					
CPI	0.8	1.2	-0.3	0.2	1.3
CPI (ex food & energy)	0.4	0.4	0.4	0.1	0.2
Employment	1.0	1.0	1.1	0.7	0.9
Unemployment rate (%)	4.2	4.0	3.8	3.9	3.9
External trade					
Trade balance (USD bn)	35.5	41.5	56.7	59.0	53.7
Current account (USD bn)	55.3	65.4	79.5	82.2	78.4
Current account (% of GDP)	10.8	12.4	15.2	15.9	15.2
Financial variables					
Gen. govt. budget (% GDP)	-1.4	-0.8	-0.6	-0.8	-0.6
Primary budget (% of GDP)	-0.7	-0.1	0.1	-0.2	0.0
Gross govt. debt (% of GDP) [2]	39.0	37.9	36.5	35.9	35.3
Interest & FX rates [2]					
Discount rate (%)	1.875	1.875	1.625	1.375	1.375
10-year bond yield (%)	1.69	1.62	1.03	0.80	0.95
USDTWD	29.8	31.7	32.9	33.5	34.0

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, DGBAS, CBC

Hong Kong: Rough ride ahead

Hit from the Fed and China

With its currency-board arrangement, Hong Kong is importing tighter US financial conditions. The combination of a slowing Chinese economy and a weaker CNY is acting as an additional squeeze on the city's economy. Hong Kong's growth is set to continue to slow over 2016.

Prices and costs squeezed

Domestic prices and costs will need to continue to be squeezed to regain competitiveness. Just as businesses try to recoup productivity, unemployment is set to rise and wage growth to slow. Add in the reversals in asset-price appreciation, and we see inflation continuing to head south.

Fiscal demand lever

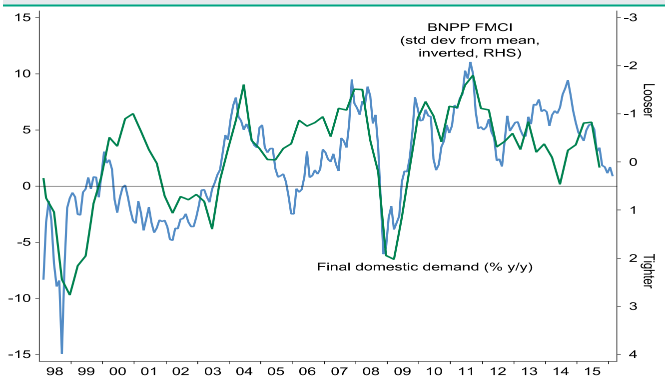
As China's economy continues to slow, a weaker USD will act as a 'circuit breaker', as we now see the US Federal Reserve on 'perma-hold' at least to the end of 2017, something markets are moving to price in. Fiscal policy remains the main lever for demand in the near term.

Where we are different

Hong Kong's financial and monetary conditions have tightened more sharply than spot nominal market interest rates alone would imply. They are now as restrictive as at any point since the global financial crisis. Growth and inflation will have to go much lower than people think.

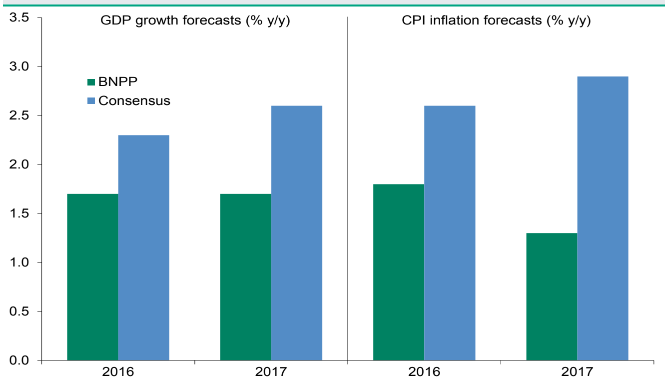
We expect growth to fall to 1.7% (consensus: 2.3%) and inflation to slow to 1.8% (consensus: 2.6%) in 2016. Disappointing economic performance will keep alive the debate on Hong Kong's 32-year-old currency peg, to which we see a distinct lack of alternatives at present.

Chart 1: Financial conditions and final domestic demand



Source: BNP Paribas, HK census and statistics department

Chart 2: Growth and inflation forecasts



Source: BNP Paribas forecasts, Bloomberg consensus

Hong Kong: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Components of growth					
Total GDP	3.1	2.5	2.4	1.7	1.7
Dom. demand ex stocks	4.0	2.4	3.1	1.1	1.7
Private consumption	4.6	3.2	4.7	1.6	2.3
Public consumption	3.0	3.0	3.0	2.9	2.9
Fixed investment	2.6	-0.2	-1.4	-1.2	-0.5
Stocks (cont. to growth)	0.0	0.5	-1.4	1.0	0.1
Exports	6.2	0.8	-2.0	1.4	1.9
Imports	6.6	1.0	-2.3	1.6	1.9
Net Trade (cont. to growth)	-0.9	-0.3	0.7	-0.4	-0.1
Inflation & labour					
CPI	4.3	4.4	3.0	1.8	1.4
CPI (ex food, energy & public rents)	3.9	3.7	2.2	1.2	0.5
Employment	2.1	0.5	1.3	0.5	0.5
Unemployment rate (%)	3.4	3.2	3.3	3.4	3.6
External trade [1]					
Trade balance (USD bn)	-27.9	-30.2	-21.7	-16.1	-14.1
Current account (USD bn)	4.2	3.6	11.9	12.9	16.9
Current account (% GDP)	1.5	1.2	3.9	4.0	5.0
Financial variables [1]					
Gen. gov. budget (% GDP)	2.6	1.1	1.9	0.0	-0.8
Primary budget (% GDP)	2.5	1.0	1.8	-0.2	-1.0
Gross gov. debt (% GDP) [2]	7.0	6.9	6.4	5.9	5.5
Interest & FX rates [2]					
Interest rate (%)	0.38	0.38	0.39	0.75	1.10
Official benchmark rate (%)	0.50	0.50	0.75	0.75	0.75
USDHKD	7.75	7.76	7.75	7.80	7.80

Footnotes: (1) Forecast (2) End period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, HKMA, HK census and statistics department

Indonesia: Cutting to the chase

Private sector struggles

Despite a belated revival of public capex, Indonesia's economy continues to grapple with the effects of lower commodity prices. Domestic energy prices have fallen, but lower nominal income growth is likely to curtail private-sector consumption and investment demand.

Food to drive inflation

Weak demand begets subdued non-food inflation, and core CPI inflation should dip below 4.0% y/y in 2016. But El Niño has pushed wholesale food inflation to over 40% y/y, suggesting food will keep CPI inflation in the upper half of the central bank target range (3.0-5.0% y/y).

Revenue pressure persists

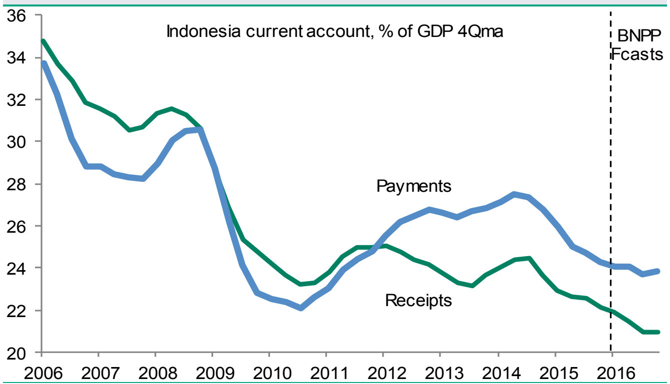
Strict fiscal-deficit rules during a collapse in commodity-linked revenue and moderating nominal GDP growth limit scope for fiscal policy support. It may even threaten much-needed capex outlays. This leaves the government debt-to-GDP ratio on course to near 30% in 2017.

Where we are different

Collapsing deposit growth is checking domestic banks' ability to support the domestic recovery, suggesting private investment will not be crowded in by stronger public capex. We expect GDP growth to rise to only 4.9% from 4.8% in 2015 (consensus: 5.2%).

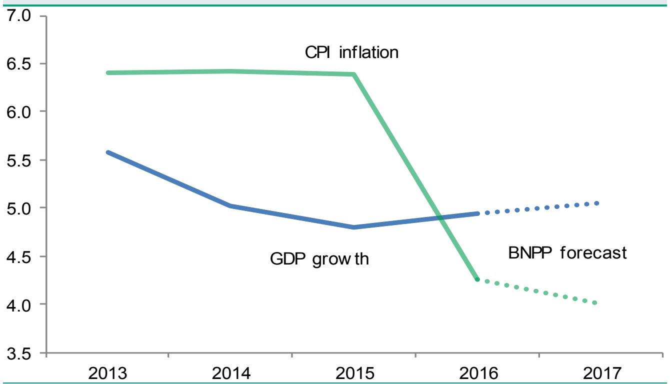
Commodity prices will pressure export receipts just as domestic demand begins to recover, pushing the current-account deficit to 3.0% of GDP in 2016 (consensus: 2.3%). A forgiving capital-flow environment, however, allows Bank Indonesia to cut rates by another 25bp in 2016.

Chart 1: An inconvenient current account



Source: CEIC, BNP Paribas

Chart 2: 2016-17 growth and inflation



Source: CEIC, BNP Paribas forecasts for 2016-17

Indonesia: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	5.6	5.0	4.8	4.9	5.0
Dom. demand ex stocks	5.5	4.6	5.0	6.4	5.9
Private consumption	5.4	5.1	5.0	5.1	5.1
Public consumption	6.9	2.0	5.4	8.2	6.4
Fixed investment	5.3	4.1	5.1	8.2	7.0
Exports	4.2	1.0	-2.0	-3.9	3.6
Imports	1.9	2.2	-5.8	1.8	8.0
Inflation					
CPI	6.4	6.4	6.4	4.3	4.0
Core CPI	4.2	4.5	4.9	3.7	4.0
External trade					
Trade balance (USD bn)	5.8	7.0	13.3	2.2	3.2
Current account (USD bn)	-29.1	-27.5	-17.8	-28.3	-31.0
Current account (% of GDP)	-3.2	-3.1	-2.1	-3.0	-3.0
Financial variables					
Gen. govt. budget (% of GDP)	-2.5	-2.4	-2.6	-2.7	-2.7
Primary budget (% of GDP)	-1.3	-1.2	-1.2	-1.3	-1.1
Gross govt. debt (% of GDP) (2)	24.9	24.7	26.9	27.0	27.7
Interest & FX rates (2)					
10-year yield (%)	8.45	7.80	8.74	8.00	8.00
Official benchmark rate (%)	7.50	7.75	7.50	6.75	6.50
USDIDR	12,189	12,306	13,619	13,800	15,700

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, Bank Indonesia, Central Bureau of Statistics

Other ASEAN: No pain, no gain

Growth under pressure

With US growth yet to revive regional manufacturing activity and China's industrial slowdown weighing heavily on prospects for the commodities sector, economic adjustment remains the overarching theme for ASEAN. This should, however, sow the seeds of stronger future growth.

CPI to undershoot

The latest relapse in commodity prices has renewed downward pressure on inflation across the board. This reinforces the need to tolerate further currency weakness to drive economic re-balancing and, in the case of Thailand and the Philippines, suggests scope for rate cuts.

Beware fiscal issues

Commensurate with this, nominal GDP growth has come under pressure and implies risk of further deterioration in current-account surpluses and fiscal-sustainability metrics, especially in Malaysia and Vietnam, where concern may resurface over official debt ceilings.

Where we are different

Our ASEAN inflation outlooks are 0.5pp or more below consensus expectations, reflecting downward revisions to oil-price assumptions and lacklustre domestic demand. A forgiving capital flow environment should allow all except Vietnam to ease policy settings.

We are relatively pessimistic on Malaysia, expecting its GDP growth to slow to 4.0% (consensus: 4.5%) from 5.0% in 2015 as low oil prices dampen investment amid limited monetary and fiscal policy space.

Thailand: Off target

Still weak external demand stresses the need for policy stimulus to revive Thailand's GDP growth. Investment-led fiscal expansion is supportive, but the private sector has been reluctant to follow. Renewed pressure on the CPI from relapsing oil prices and a strong THB will not help.

Where we are different

Lower oil prices should give a current-account surplus of near 8.0% of GDP (consensus: 4.8%) and inflation below the bottom of the 1.0-4.0% y/y inflation target range for the second year running (consensus: 1.4% y/y), heightening pressure on the Bank of Thailand to cut rates.

Malaysia: Out of room

Malaysia's high economic gearing to commodity prices and limited fiscal policy space keep near-term prospects under strain. Lingering fear of MYR weakness and high indebtedness currently restrain scope for easing, but should fade in tandem with inflation in late 2016.

Where we are different

Lower rates globally allay balance-of-payments pressure, giving the central bank scope to marry macro-prudential easing with a 25bp rate cut (consensus: no change). Weak nominal GDP growth in 2016 (we forecast 5.0%, officials 7.0%) and revenue strains will revive debt-ceiling concerns.

Thailand: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
GDP (% y/y)	2.8	0.9	2.8	3.0	3.0
CPI (% y/y)	2.2	1.9	-0.9	0.0	2.0
Current account (% of GDP)	-1.2	3.9	7.7	8.0	6.5
Budget balance (% of GDP)	-1.7	-2.5	-2.3	-3.2	-3.4
Primary budget (% of GDP)	-0.9	-1.7	-1.4	-2.3	-2.5
Gross govt. debt (% of GDP) (2)	29.3	30.0	31.7	32.7	34.5
Official benchmark rate (%) (2)	2.25	2.00	1.50	1.25	1.25
USDTHB (2)	32.71	32.90	36.03	36.00	38.00

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, BoT, National Statistical Office of Thailand

Malaysia: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
GDP (% y/y)	4.7	6.0	5.0	4.0	4.5
CPI (% y/y)	2.1	3.1	2.1	2.5	3.5
Current account (% of GDP)	3.5	4.3	2.9	2.0	1.0
Budget balance (% of GDP)	-3.8	-3.4	-3.1	-3.1	-2.9
Primary budget (% of GDP)	-1.7	-1.3	-1.1	-1.0	-0.8
Gross govt. debt (% of GDP) (2)	53.0	52.7	54.6	55.3	55.0
Official benchmark rate (%) (2)	3.00	3.25	3.25	3.00	3.25
USDMYR (2)	3.28	3.50	4.29	4.10	4.80

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, BNM, Department of Statistics Malaysia

Singapore: Cornered

Subdued external growth and weak inflation are spurring calls for the Monetary Authority of Singapore to ease in April and shift to a neutral bias on SGDNEER. Labour-market tightness and debt-service constraints suggest this would only compound downward pressure on growth.

Where we are different

We expect growth to grind lower to 1.5% in 2016 (consensus: 2.3%) as firms and households adjust to higher domestic interest rates. A reduction in global interest rate expectations offer MAS scope to move to a neutral bias in April (consensus: no change).

Philippines: Bearing it

A domestically driven growth model and a pending presidential election should insulate the Philippine economy from a subdued external environment. Policymakers remain watchful and acknowledge that PHP adjustment, while painful for risk assets, is economically beneficial.

Where we are different

A strong PHP and cheaper oil signal the central bank will miss its 2.0-4.0% y/y inflation target again (consensus: 2.5%). With financial-stability concern receding, 50bp of largely symbolic reverse-repo-rate cuts will take it to 3.50%, while the SDA rate should remain at 2.50%.

Vietnam: Not so healthy

A focus on Vietnam's strong real GDP growth overlooks record-low nominal GDP growth in 2015 of 6.5%, worrying deteriorations in the current-account surplus and public finances, and surging credit. Changes to the FX regime give some comfort, but greater flexibility is needed.

Where we are different

A still rigid FX regime amid further falls in commodity prices sustain pressure on inflation and nominal GDP growth while risking deterioration in external balances and public-debt dynamics. By 2017, this may spur an adjustment in USDVND to near 24,000 (consensus: 23,200).

Singapore: Economic forecasts

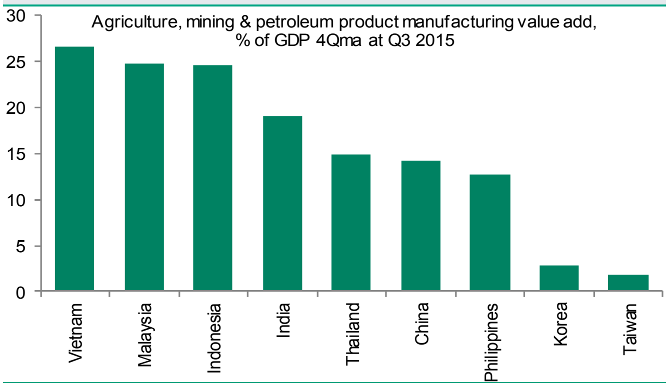
	2013	2014	2015 [1]	2016 [1]	2017 [1]
GDP (% y/y)	4.4	2.9	2.0	1.5	2.0
CPI (% y/y)	2.4	1.0	-0.5	0.5	1.7
Current account (% of GDP)	17.7	19.0	22.7	19.6	17.3
Budget balance (% of GDP)	3.3	2.9	2.8	2.7	1.9
Primary budget (% of GDP)	5.3	4.8	4.8	4.8	4.1
Gross govt. debt (% of GDP) [2]	99.7	100.9	107.6	114.4	121.5
Net gov. debt (% GDP) [3]	-78.2	-89.2	-91.8	-98.6	-103.1
USDSGD [2]	1.27	1.33	1.42	1.42	1.50

Footnotes: (1) forecast, (2) end period , (3) BNP Paribas estimate

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, Statistics Singapore, MAS

Chart 1: ASEAN economic models need to adjust



Source: CEIC, BNP Paribas

The Philippines: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
GDP (% y/y)	7.1	6.1	5.8	6.0	6.5
CPI (% y/y)	2.9	4.2	1.4	1.8	2.5
Current account (% of GDP)	4.2	3.8	3.0	2.5	1.0
Budget balance (% of GDP)	-1.4	-0.6	-0.7	-1.5	-1.3
Primary budget (% of GDP)	1.4	2.0	1.6	0.7	0.8
Gross govt. debt (% of GDP) [2]	49.2	45.4	44.8	43.8	42.7
Official benchmark rate (%) [2]	3.50	4.00	4.00	3.50	3.50
USDPHP [2]	44.41	44.72	46.91	48.00	49.50

Footnotes (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, BSP, Philippine Statistics Authority

Vietnam: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
GDP (% y/y)	5.4	6.0	6.7	6.0	6.5
CPI (% y/y)	6.6	4.1	0.6	2.5	4.5
Current account (% of GDP)	4.5	4.9	0.4	0.8	-1.4
Budget balance (% of GDP) [2]	-6.6	-5.0	-5.5	-5.0	-5.2
Primary budget (% of GDP) [2]	-5.1	-3.3	-3.5	-2.7	-3.0
Budget balance (% of GDP)	-5.0	-3.7	-4.0	-3.2	-3.7
Primary budget (% of GDP)	-3.5	-2.0	-2.0	-1.1	-1.4
Gross govt. debt (% of GDP) [3]	53.3	58.8	60.1	60.7	59.7
USDVND [3]	21,095	21,388	22,485	23,200	24,200

Footnotes: (1) forecast, (2) based on the Viet standard, (3) end period

Budget balances based on the Viet standard, which includes amortisation

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas forecasts, General Statistics Office, State Bank of Vietnam

Canada: Waiting for Trudeau

Low oil prices key risk

Easy credit has buoyed consumer spending and the housing market, but low oil prices have hurt the economy. Business investment looks unlikely to recover anytime soon. Our outlook for the US suggests Canadian export growth will slow. This leaves fiscal spending to pick up the bill.

Inflation still elevated

Upward inflation pressure from exchange-rate pass-through should be transitory and offset by slack in the economy. The Bank of Canada (BoC) estimates the underlying trend at 1.5-1.7%, below its 2% central target. We see core inflation hovering within that range through 2017.

Fiscal policy in focus

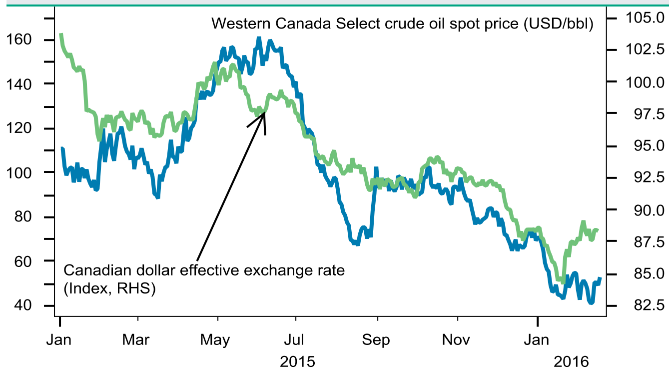
While recently elected Prime Minister Justin Trudeau is willing to spend, there are limits. We estimate his FY2016 measures will add 0.25pp to growth in the 2016 calendar year; but lower oil revenue could subtract much of this and require spending cuts.

Where we are different

We are relatively pessimistic on the medium-term outlook. For 2017, our GDP growth projection of 1.6% y/y is well below the consensus forecast of 2.2% y/y and the BoC's 2.4% y/y. We are lower than consensus on core CPI inflation, as well, by 0.3pt for 2016 and 0.4pt for 2017.

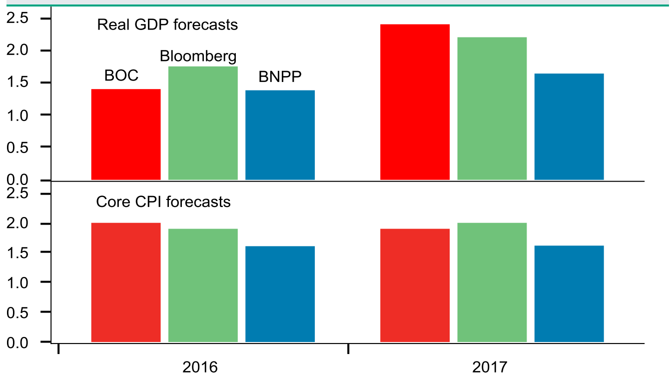
Monetary policy has taken a back seat as the BoC awaits the budget's fiscal package to lift growth. We are more pessimistic than consensus that the fiscal boost will be enough. It is a matter of time before the bank adopts more easing, in our view, but it sounds unwilling for now.

Chart 1: USDCAD vs oil prices



Source: Bank of Canada, Bloomberg, BNP Paribas

Chart 2: Growth and inflation forecasts compared (% y/y)



Source: Statistics Canada, Bank of Canada, Bloomberg consensus, BNP Paribas

Canada: Economic forecasts

	2013	2014	2015 (1)	2016 (1)	2017 (1)
Components of growth					
Total GDP	2.2	2.5	1.2	1.4	1.6
Dom. demand ex stocks	1.3	1.6	0.7	1.2	2.1
Private consumption	2.4	2.6	1.9	1.6	1.2
Public consumption	-0.8	0.6	1.5	2.3	3.7
Fixed investment	0.7	0.4	-3.8	-1.3	2.3
Exports	2.8	5.3	3.2	2.7	2.9
Imports	1.5	1.8	0.8	2.8	5.5
Savings ratio (%)	5.4	4.2	4.3	3.0	2.8
Inflation					
CPI	0.9	1.9	1.1	0.9	1.9
Core CPI	1.2	1.8	2.2	1.6	1.6
Unemployment rate (%)	7.1	6.7	7.1	7.3	7.5
External trade					
Current account (% of GDP)	-3.0	-2.3	-3.3	-3.7	-4.0
Financial variables (2)					
Fed. govt. budget (CAD bn)	-11.4	2.9	-16.5	-28.5	-40.0
Fed. govt. budget (% of GDP)	-0.6	0.1	-0.1	-0.8	-1.4
Fed. govt. primary budget (% of GDP)	0.9	1.5	1.3	0.7	0.5
Gross fed. govt. debt (% of GDP)	31.1	30.2	30.1	31.1	31.8
Interest & FX rates (3)					
Call rate (%)	1.00	1.00	0.50	0.50	0.50
10-year bond yield (%)	2.66	1.83	1.48	1.40	1.55
USDCAD	1.06	1.15	1.36	1.48	1.40

Footnotes: (1) forecast, (2) fiscal year, (3) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: Statistics Canada, Bank of Canada, Bloomberg, BNP Paribas forecasts

Brazil: A new low

Worst slump since 1930s

In light of economic uncertainties and bleak policy prospects, we foresee 2016 real GDP growth at −4.0%, bringing the economy down about 8% cumulatively by end 2016. This is the first time Brazil has experienced two consecutive annual contractions since the depression in 1930-31.

Inflation well above target

While the central bank (BCB) sees risks biased to the downside on inflation, we fear the risks are biased to the upside as long as expectations remain unanchored. Indexation factors, probable tax increases and a lack of monetary-policy credibility are likely to fuel inflation.

BCB to remain on hold

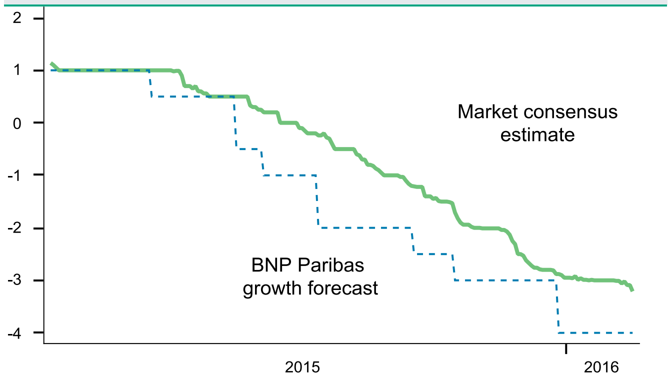
Amid reduced global monetary tightening, the BCB's dovish talk suggests it will resist rate hikes. We now assume the BCB will remain on hold for a long period. However, we think the risks are asymmetric over time: to the downside in the short term and to the upside ahead.

Where we are different

We are way out of consensus on growth and inflation. We believe the consensus will come to see things our way and to expect a deeper recession. Talk of impeaching the president perpetuates uncertainty. Confidence will probably be glum until the policy framework improves.

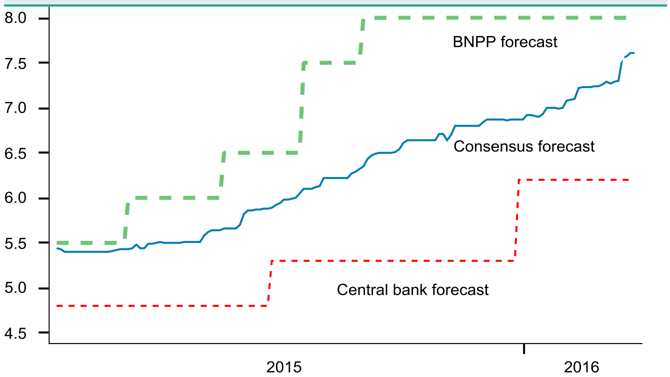
On inflation, too, we strongly believe the market consensus view on 2016 inflation will continue to rise towards our high-conviction, above-consensus call, which is well above both the official 4.5% target and the 6.5% target ceiling. The convergence to our call has already begun.

Chart 1: Real GDP growth forecast, 2016 (%)



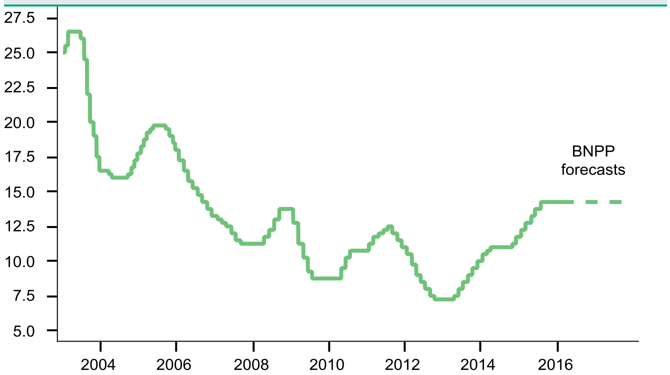
Source: BCB, Macrobond, BNP Paribas forecast

Chart 2: IPCA inflation forecast, 2016 (%)



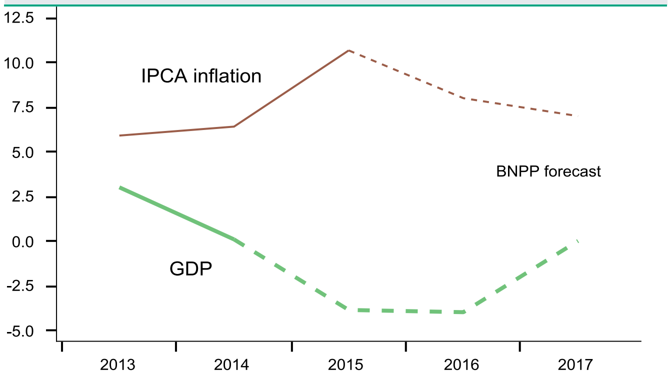
Source: BCB, Macrobond, BNP Paribas forecast

Chart 3: Selic rate, 2016 (%, ra)



Source: BCB, Macrobond, BNP Paribas forecasts (dotted line)

Chart 4: Growth and inflation (% y/y)



Source: IBGE, Macrobond, BNP Paribas forecasts (dotted line)

Brazil: Economic and financial forecasts

	Year					2015				2016			
Components of growth	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
GDP (% q/q SAAR)	-	-	-	-	-	-3.3	-8.2	-6.8	-5.6	-4.0	-2.8	-0.8	0.4
GDP	3.0	0.1	-3.8	-4.0	0.0	-2.0	-3.0	-4.5	-5.9	-6.0	-4.7	-3.3	-1.8
Demand side													
Private consumption	3.5	1.3	-3.8	-5.1	-0.5	-1.5	-3.0	-4.5	-5.9	-6.4	-5.5	-4.4	-3.9
Public consumption	1.5	1.2	-0.5	-2.9	0.9	-0.5	-0.3	-0.4	-0.7	-1.5	-3.2	-3.9	-2.7
Fixed investment	5.8	-4.5	-15.4	-15.8	-2.7	-10.1	-12.9	-15.0	-23.9	-26.7	-16.4	-10.8	-7.5
Exports	2.4	-1.1	5.9	11.5	3.6	3.3	7.7	1.1	11.7	11.7	11.6	11.2	11.4
Imports	7.2	-1.0	-13.3	-11.1	-2.7	-5.0	-11.5	-20.0	-16.1	-18.8	-9.6	-7.7	-7.6
Net exports (contrib. to growth)	-0.7	0.0	2.8	3.3	0.9	1.1	2.6	3.1	3.6	3.8	2.7	2.6	2.4
Supply side													
Agricultural	8.4	2.1	1.9	1.6	2.0	5.4	2.2	-2.0	1.0	1.5	1.7	1.5	1.9
Industrial	2.2	-0.9	-6.8	-8.9	-0.5	-4.4	-5.7	-6.7	-10.3	-12.2	-11.2	-8.0	-3.9
Services	2.8	0.4	-2.4	-2.9	0.1	-1.4	-1.8	-2.9	-3.5	-3.5	-3.4	-2.6	-2.3
Industrial production	2.1	-3.0	-8.3	-8.7	0.5	-5.8	-6.1	-9.2	-11.9	-11.7	-10.5	-8.0	-4.3
IP (% q/q saar)	-	-	-	-	-	-10.8	-9.8	-13.6	-15.5	-10.1	-4.4	-3.0	0.0

	Year					2015				2016			
Inflation & labour	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
IPCA	6.2	6.3	9.0	9.1	7.4	7.7	8.5	9.5	10.4	10.1	8.9	8.9	8.3
IPCA (2)	5.9	6.4	10.7	8.0	7.0	8.1	8.9	9.5	10.7	9.3	8.6	9.0	8.0
IPCA core (2)	6.0	6.2	8.6	7.7	6.3	7.0	7.5	7.8	8.6	8.5	7.8	7.7	7.7
IGP-M (2)	5.5	3.7	10.5	7.9	6.4	3.1	5.6	8.4	10.5	11.8	11.0	10.3	7.9
Employment	0.7	-0.1	-1.4	-3.7	1.4	-0.7	-0.9	-1.5	-2.4	-4.2	-4.8	-3.9	-2.1
Unemployment rate (%)	5.4	4.8	6.8	10.4	10.1	5.7	6.6	7.5	7.4	9.3	10.9	11.0	10.3
Wages	8.1	9.0	5.5	4.5	5.8	7.3	5.1	6.4	3.1	4.9	4.0	4.6	4.4

	Year					2015				2016			
External trade (USD bn)	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Trade balance	0	-7	18	55	57	-6	7	8	9	7.5	16.6	16.7	14.6
Current account	-75	-104	-60	-16	-18	-25	-13	-11	-11	-8	0	-2	-7
Current account (% of GDP) (2)	-3.1	-4.4	-3.4	-1.0	-1.1	-4.5	-4.4	-4.1	-3.4	-2.6	-1.9	-1.3	-1.0
FDI (% GDP) (2)	2.9	4.1	4.3	3.1	3.3	-	-	-	-	-	-	-	-

	Year					2015				2016			
Financial variables	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
General govt. budget (% of GDP)	-3.3	-6.2	-10.3	-10.6	-10.3	-	-	-	-	-	-	-	-
Primary budget (% of GDP)	1.9	-0.6	-1.9	-1.7	-1.0	-	-	-	-	-	-	-	-
Gross govt. debt (% of GDP) (2)	57.2	58.9	66.2	75.1	81.3	62.4	63.0	66.0	66.2	68.5	70.7	72.9	75.1

	Year					2015				2016			
Interest rates & FX rates (2)	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Selic rate (%)	10.00	11.75	14.25	14.25	14.25	12.75	13.75	14.25	14.25	14.25	14.25	14.25	14.25
1-year swap rate (%)	10.60	13.00	15.90	13.70	14.40	13.50	14.30	15.60	15.90	14.30	14.30	14.10	13.70
USDBRL	2.36	2.50	3.90	4.35	4.55	3.21	3.10	3.97	3.90	4.08	4.20	4.30	4.35
EURBRL	3.25	3.05	4.31	4.96	4.78	3.50	3.47	4.48	4.31	4.65	4.87	4.95	4.96

Footnotes: (1) forecast, (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BCB, IBGE, finance ministry, BNP Paribas forecasts

Mexico: Weaker growth, higher inflation

Consumer-driven growth

Robust private consumption, underpinned by more jobs and rising real wages, is helping GDP grow at a near-trend pace. However, we expect exports and manufacturing production to remain soft. This and the oil sector's problems are likely to result in slower growth this year.

Inflation to rise gradually

We expect inflation to rise gradually this year after troughing at 2.1% in late 2015. Import prices in USD terms have stopped declining, non-food merchandise price inflation is accelerating and FX pass-through will be a major upside risk. We keep our end-2016 inflation projection at 3.1%.

Need for fiscal austerity

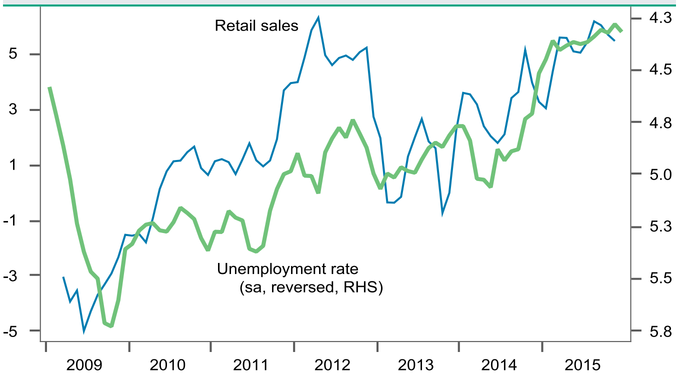
Oil income has gone from one-third of the budget to one-fifth. The government's put options give it oil-revenue protection at USD 49/bbl. Its commitment to lowering the fiscal deficit may be tested, especially in 2017, should oil prices remain depressed and Pemex's finances worsen.

Where we are different

We are lowering our 2016 growth projection from 2.4% previously to 2.0%, moving further away from the consensus projection of 2.6%. We think this year's growth will be held back by softening US demand for Mexico's manufactured goods and weaker investment.

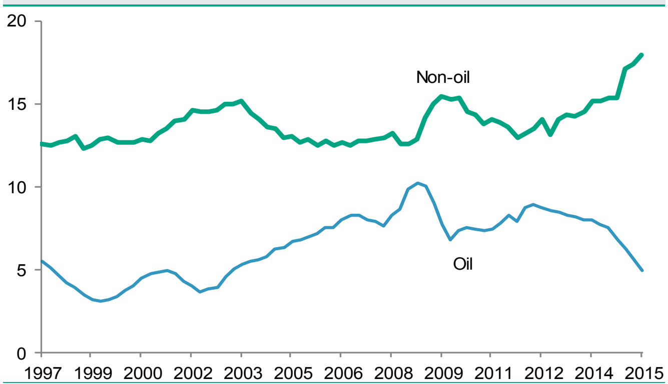
Following its intra-meeting, surprise 50bpp hike this month, we expect Mexico's central bank to remain on hold this year, in line with our Fed and FX views. However, Banxico might hike the policy rate once or twice more in 2016 to help stabilise USDMXN. Domestic growth conditions do not justify additional tightening as long as FX does not jeopardise the inflation target.

Chart 1: Labour market and retail sales (3mma, % y/y)



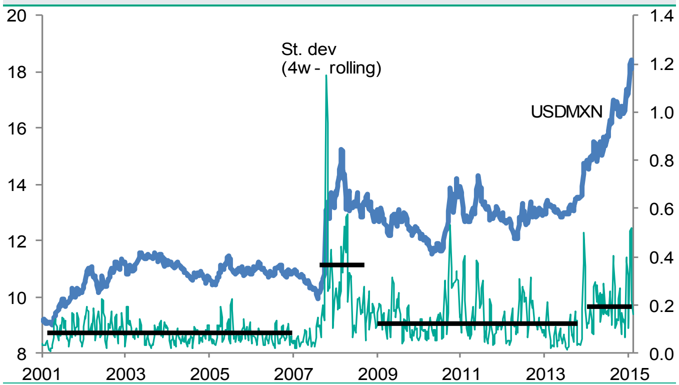
Source: Macrobond, Inegi, BNP Paribas

Chart 2: Oil and non-oil revenue (% of GDP)



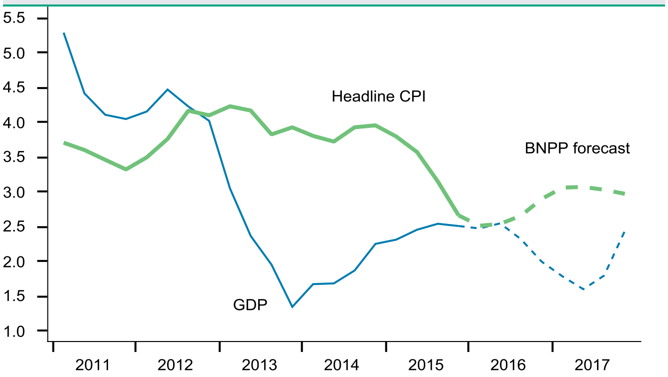
Source: SHCP, Inegi, BNP Paribas

Chart 3: MXN level and volatility



Source: Bloomberg, BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: Macrobond, Inegi, BNP Paribas forecasts (dotted lines)

Mexico: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP (% q/q saar)	-	-	-	-	-	2.1	2.5	2.4	2.4	1.8	1.6	1.2	0.7
GDP (% y/y)	1.4	2.3	2.5	2.0	2.4	2.5	2.3	2.6	2.5	2.4	2.6	1.7	1.3
Demand side													
Private consumption	2.3	1.8	2.8	2.4	2.9	3.0	2.8	2.9	2.7	2.4	2.6	2.4	2.0
Public consumption	1.2	2.4	2.0	1.5	1.8	3.1	2.6	1.1	1.1	1.8	1.3	1.6	1.1
Fixed investment	-1.6	2.9	4.5	2.2	3.9	5.5	5.5	4.1	3.1	2.9	2.3	1.8	2.0
Exports	2.4	7.0	6.5	3.1	3.3	12.3	9.3	10.0	-4.1	-1.1	4.7	4.3	4.1
Imports	6.8	6.0	5.7	6.4	5.0	6.7	5.4	6.2	4.8	2.6	6.7	10.0	5.9
Supply side													
Agriculture	0.9	4.3	3.1	-1.3	2.0	2.9	2.6	4.1	3.1	-2.2	-1.2	-3.6	1.1
Industry	-0.6	2.6	0.9	1.7	1.7	1.7	0.6	1.2	0.0	1.4	2.0	2.3	1.2
Services	2.5	1.9	3.1	2.5	3.4	2.9	3.1	3.3	3.2	2.9	2.6	2.4	2.3
Industrial production (% y/y)	-0.6	2.6	0.9	1.7	1.7	1.7	0.6	1.2	0.0	1.4	2.0	2.3	1.2
Industrial production (% q/q saar)	-	-	-	-	-	-0.2	-0.4	2.2	4.4	4.1	3.7	3.4	3.0

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation & labour													
CPI	3.8	4.0	2.7	2.9	3.0	3.0	2.9	2.6	2.3	2.5	2.9	3.0	3.1
CPI (2)	4.0	4.1	2.1	3.1	2.8	3.1	2.9	2.5	2.1	2.5	3.0	3.0	3.1
CPI core (2)	2.8	3.2	2.4	2.6	2.6	2.4	2.3	2.4	2.4	2.7	2.7	2.5	2.6
Employment	3.5	3.5	4.3	3.6	3.7	4.5	4.4	4.4	4.0	3.6	3.6	3.5	3.5
Unemployment rate (%)	4.9	4.8	4.4	4.3	4.0	4.2	4.4	4.6	4.2	4.3	4.3	4.5	4.1

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (USD bn)	-1.2	-2.8	-14.5	-22.6	-31.1	-2.2	-1.9	-6.5	-3.9	-2.9	-2.8	-8.8	-8.1
Current account (USD bn)	-30.5	-24.0	-29.0	-33.4	-37.6	-8.3	-7.6	-8.9	-4.3	-7.5	-7.8	-9.7	-8.4
Current account (% of GDP)	-2.3	-1.8	-2.4	-2.9	-3.0	-1.9	-1.9	-2.5	-2.4	-2.5	-2.6	-2.7	-2.9

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables (2)													
Public budget balance (% of GDP)	-2.2	-3.0	-3.5	-3.0	-2.5	-3.4	-3.7	-3.2	-3.5	-3.4	-3.3	-3.1	-3.0
Primary budget (% of GDP)	-0.4	-1.1	-1.4	-0.9	-0.4	-1.3	-1.5	-1.0	-1.4	-0.8	-1.0	-0.5	-0.9
Gross govt. debt (% of GDP)	36.8	40.1	43.9	44.5	45.1	43.3	43.4	45.2	43.9	44.1	44.2	44.4	44.5

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest & FX rates (2)													
Benchmark overnight rate (%)	3.50	3.00	3.25	3.75	4.25	3.00	3.00	3.00	3.25	3.75	3.75	3.75	3.75
Cetes 1m	3.17	2.68	2.97	3.85	4.35	3.04	2.98	2.93	2.97	3.85	3.85	3.85	3.85
USDMXN	13.04	14.75	17.26	17.00	16.50	15.23	15.69	16.95	17.26	17.85	17.50	17.20	17.00
EURMXN	17.92	17.84	18.91	19.38	17.33	16.51	17.53	18.98	18.91	20.35	20.30	19.78	19.38

Footenotes: (1) forecast, (2) end period

Source: Banxico, INEGI, finance ministry, BNP Paribas forecasts

Colombia: In need of fiscal clarity

Slower growth ahead

An orderly structural adjustment to lower potential growth is under way, although domestic absorption has held up too well to contain inflation and the current-account deficit. Strong public spending has been an impediment.

Inflationary shocks persist

The COP collapse and the El Niño weather pattern have caused inflation to surge, sullying both core inflation and inflation expectations. While we expect the impact of these two shocks to fade gradually in Q4, inflation should remain above the target range into 2017.

Fiscal revamp needed

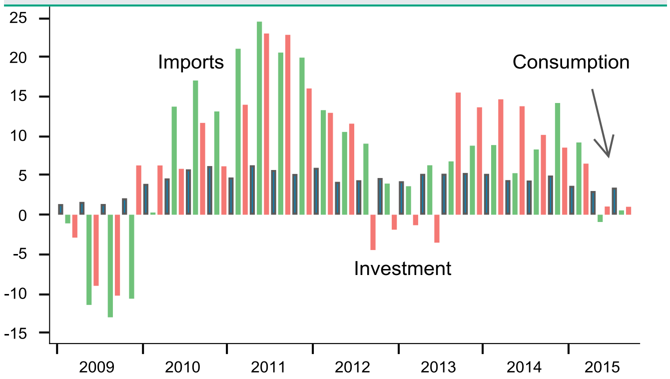
With the oil-price collapse, the government needs to prove its commitment to its 2016 fiscal target of 3.6% of GDP. It also needs Congress to pass a fiscal plan to net new revenue of at least 2% of GDP, setting the debt-to-GDP ratio on a downward path from the start of 2017.

Where we are different

We think this year's GDP growth will be only 2.2%, well below the consensus projection of 2.6%. We expect a significant slowdown in investment and weak private consumption, reflecting a delayed oil-shock impact, higher policy rates, falling real wages and deteriorating sentiment.

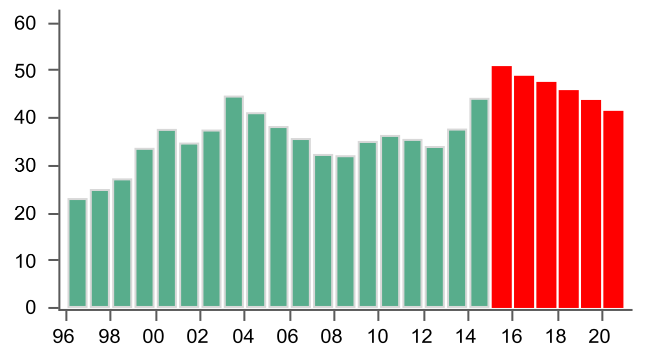
We expect rate hikes to continue into Q2, and, unlike the consensus, see no rate cuts in H2, as it will take time for the current-account deficit to narrow and inflation to reach target. We think a cautious central bank will want to correct imbalances at the cost of slower near-term growth.

Chart 1: Domestic demand components (% y/y)



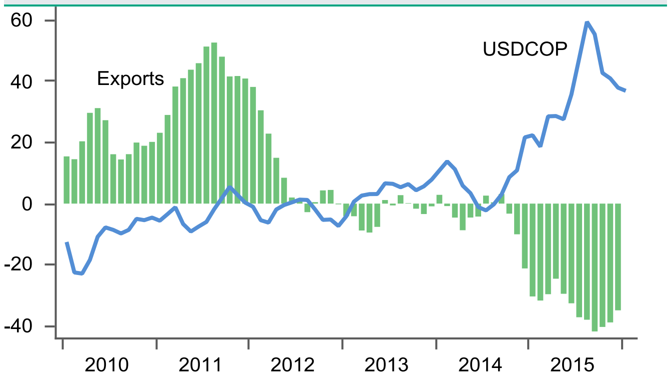
Source: DANE, Macrobond, BNP Paribas.

Chart 2: Official target gross debt ratio (% of GDP)



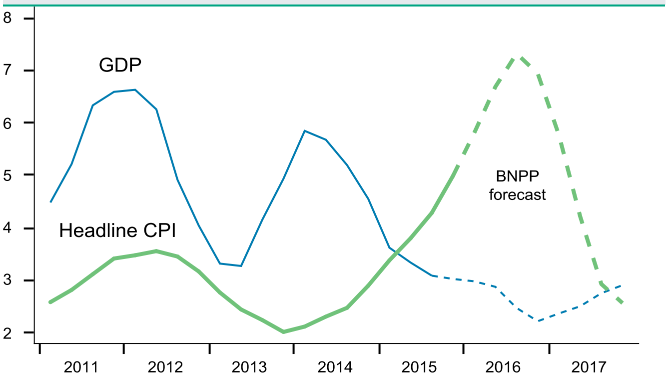
Source: Hacienda, IMF, Macrobond, BNP Paribas.

Chart 3: 12-m exports and the exchange rate (%, y/y)



Source: BanRep, Macrobond, BNP Paribas

Chart 4: Growth and inflation (% y/y)



Source: Macrobond, DANE, BNP Paribas forecasts (dotted line)

Colombia: Economic and financial forecasts

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Components of growth													
GDP	4.9	4.6	3.0	2.2	2.9	2.8	3.0	3.2	3.2	2.6	2.6	1.6	2.2
Private consumption	3.8	4.4	3.5	3.3	3.1	4.1	3.4	3.5	3.1	3.7	3.4	3.0	3.3
Fixed investment	5.6	11.7	2.4	0.7	1.1	6.5	1.0	1.0	0.9	1.7	0.9	1.1	-0.9
Government consumption	9.2	6.2	2.2	1.8	3.1	2.2	1.8	2.7	2.2	2.1	2.0	1.6	1.6
Exports	5.3	-1.7	-3.4	3.6	7.0	2.3	-0.8	-0.7	-1.4	1.2	4.5	2.1	6.6
Imports	6.4	9.2	1.4	3.4	4.0	9.2	-0.9	0.6	-2.5	2.6	3.1	4.2	3.7

	Year					2015				2016			
	13	14	15	16(1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Inflation													
CPI (% y/y)	2.0	2.9	5.0	6.9	2.6	4.2	4.5	4.9	6.4	7.5	8.0	7.4	4.9
CPI (% y/y) (2)	1.9	3.7	6.8	4.4	3.7	4.6	4.4	5.4	6.8	7.6	8.3	6.5	4.4
Core CPI (% y/y) (2)	2.4	3.3	5.2	4.2	4.0	3.5	3.7	4.6	5.2	5.5	5.3	4.7	4.2

	Year					2015				2016			
	13	14	15 (1)	16(1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
External trade													
Trade balance (USD bn)	3.2	-4.6	-13.3	-11.7	-11.8	-3.4	-2.2	-3.5	-4.2	-2.6	-2.4	-3.3	-3.5
Current account (USD bn)	-12.4	-19.6	-19.5	-17.2	-17.5	-5.1	-4.1	-4.6	-5.8	-3.6	-4.0	-4.5	-5.1
Current account (% of GDP)	-3.3	-5.2	-6.6	-6.2	-5.7	-5.7	-5.9	-6.4	-6.6	-6.5	-6.4	-6.4	-6.2

	Year					2015				2016			
	13	14	15 (1)	16 (1)	17 (1)	Q1	Q2	Q3	Q4 (1)	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Financial variables													
Budget balance (% of GDP)	-2.2	-2.6	-3.0	-3.9	-3.4	-3.0	-2.5	-2.8	-3.0	-3.2	-3.5	-3.7	-3.9
Gross govt. debt (% of GDP) (2)	35.1	38.3	42.4	41.8	43.0	39.9	40.1	43.7	42.4	42.1	41.9	41.8	41.8

	Year					2015				2016			
	13	14	15	16 (1)	17 (1)	Q1	Q2	Q3	Q4	Q1 (1)	Q2 (1)	Q3 (1)	Q4 (1)
Interest rates and bonds (2)													
Interest rate (%)	3.25	4.50	5.75	7.00	5.50	4.50	4.50	4.75	5.75	6.50	7.00	7.00	7.00
3-month rate (%)	4.07	4.34	5.22	7.30	5.80	4.36	4.28	4.39	5.22	6.80	7.30	7.30	7.30
FX rates (2)													
USDCOP	1930	2330	3174	3150	3300	2595	2601	3110	3174	3275	3230	3195	3150

(1) Forecast , (2) end period

Figures are year-on-year percentage changes unless otherwise indicated

Source: Macrobond, DANE, BNP Paribas forecasts

Chile: Global drag on growth

Lower growth expected

A less supportive global environment means that growth is likely to suffer in a small and open economy such as Chile. We are cutting our real GDP growth forecasts to 1.5% for 2016 and 2.5% for 2017 and we expect below-par growth throughout our forecast period.

Policy stimulus to decline

A pickup in economic activity to above-potential rates would demand a decisive improvement in domestic confidence that has, so far, remained elusive (Chart 1). Policy stimulus is likely to continue to decline in 2016.

Slow inflation deceleration

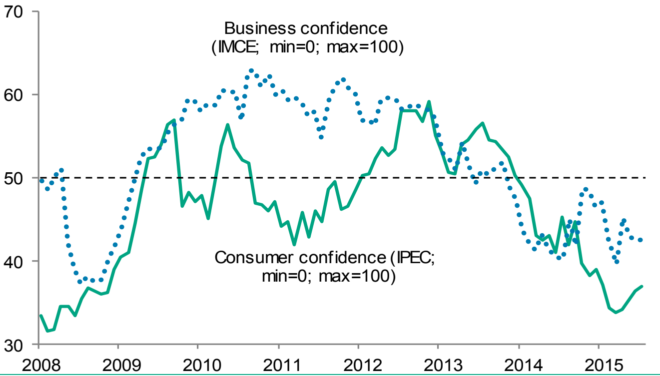
We look for inflation to return to the central bank's (BCCh) 2-4% tolerance range only in Q3 2016 and to the 3% target in Q4 2017. Lower oil prices benefit Chile, an oil importer, but the mechanism that regulates domestic gasoline prices will delay the expected fall in inflation.

Where we are different

The central bank (BCCh) should hike twice again this year and lift the policy rate to 4% by end-2016. The pace of hikes will be gradual in a context where growth is below potential. Unlike the consensus, we expect high inflation will most likely result in a further 50bp of hikes in 2017.

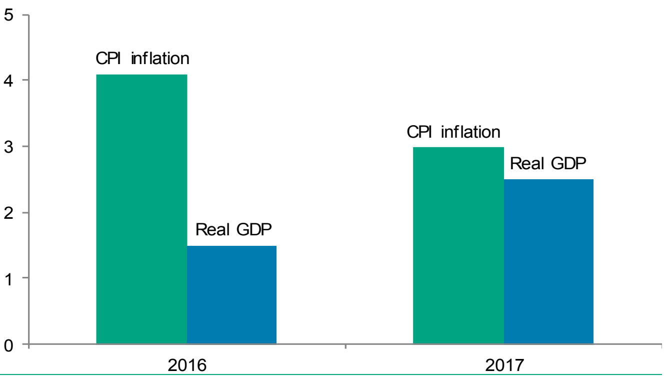
We are currently more negative than the consensus on both 2016 and 2017 GDP growth. Fiscal performance surprised positively in 2015. Despite this surprise, fiscal convergence is likely to proceed only gradually towards a balanced budget because of lower copper prices.

Chart 1: Consumer and business confidence (%)



Source: Adimark, Icare, Macrobond, BNP Paribas

Chart 2: Growth and inflation forecasts (%)



Source: BNP Paribas (end-period inflation forecast)

Chile: Economic forecasts

	2013	2014	2015[1]	2016[1]	2017[1]
Components of growth					
Total GDP	4.2	1.9	2.0	1.5	2.5
Dom. Demand	3.7	-0.6	2.3	1.7	2.7
Private consumption	6.0	2.1	2.0	1.5	2.5
Public consumption	3.4	4.4	3.7	3.0	2.0
Fixed investment	2.1	-6.1	-0.5	1.0	3.0
Exports	3.4	0.7	-1.5	1.0	2.0
Imports	1.7	-7.0	-1.2	1.3	2.0
Inflation					
CPI	1.8	4.4	4.3	4.1	3.0
CPI (% y/y) [2]	2.7	4.6	4.4	4.1	3.0
Core CPI	1.7	4.0	5.3	4.5	3.0
External trade					
Trade balance (USD bn)	1.8	7.8	4.1	0.8	0.6
Current account (USD bn)	-10.1	-3.0	-3.0	-7.0	-6.0
Current account (% of GDP)	-3.5	-1.2	-1.0	-2.9	-2.7
Financial variables					
Budget balance (% of GDP)	-0.6	-1.6	-2.2	-2.0	-1.0
Primary budget (% of GDP)	0.0	-1.0	-1.5	-1.3	-0.2
Gross govt. debt (% of GDP) [2]	12.1	14.2	16.4	16.6	15.8
Interest & FX rates [2]					
Interest rate (%)	4.50	3.00	3.50	4.00	4.50
USDCLP [1]	525	606	707	700	725

Footnotes: (1) forecast, (2) end period
Figures are year-on-year percentage changes unless otherwise indicated

Source: BCCh, INE, BNP Paribas forecasts

Argentina: Another year of stagflation

Recession now expected

Argentina's growth is likely to be lifted in the medium term by the confidence boost from political change in Q4 2015, but constrained in the near term by low commodity prices and Brazil's record recession. We have cut our 2016 growth forecast and expect a modest recession.

Lower inflation in H2 2016

We share the official view that inflation will slow rapidly in H2 2016 after an initial FX- and tariff-driven spike fades. But such moderation is likely to fall short of what is needed for inflation to sit within the 20-25% official target range. Rather, we see inflation ending the year at 30% y/y.

Large financing needs

The 2016 fiscal-deficit target results in large financing needs (Table 1). Even assuming that a deal with holdout creditors is reached sometime this year (as we expect), such a large financing gap assumes too heavy a reliance on international capital markets.

Where we are different

The government aims to return to single-digit inflation and primary fiscal balance only in 2019 (Chart 1). We view this gradual convergence as a feasible and credible commitment, but the government's 2016 fiscal and inflation targets look inconsistent with each other.

The prevailing view seems to be that the government will struggle to meet its 2016 fiscal goal. We think it might beat it: a lower fiscal deficit and more central-bank peso issuance than announced should reduce financing needs and issuance. But inflation will probably exceed the target range.

Table 1: Financing needs (USD bn)

Uses	13.0
Debt service	11.0
Transfers to provinces & other	2.0
Debt buybacks and other	0.0
Sources	-10.2
Headline surplus	-29.7
Gross disbursements by IFIs	3.5
BCRA financing in ARS	12.0
BCRA financing in USD	0.0
Roll-over of intra-public sector debt (Anses)	4.0
New intra-public sector financing and other	0.0
Financing needs	23.2

Source: Finance ministry, BNP Paribas

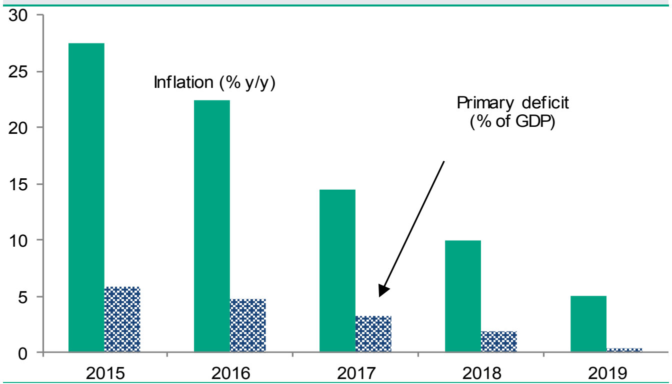
Argentina: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Real GDP (% y/y) [2]	3.0	0.5	1.0	-0.7	3.0
CPI, official (% y/y) [2]	10.6	22.3	16.0	35.0	18.0
CPI, official (% y/y) [2][3]	10.5	23.7	15.0	34.0	18.0
Trade balance (USD bn)	8.0	6.7	1.4	1.5	4.0
Current account (USD bn)	-4.7	-5.5	-14.0	-15.0	-18.0
Current account (% of GDP)	-0.8	-1.1	-2.4	-3.0	-4.0
Budget balance (% of GDP)	-1.9	-2.5	-7.0	-6.4	-5.5
Primary budget (% of GDP)	-0.7	-0.9	-5.8	-4.2	-3.3
Gross govt. debt (% of GDP) [1][3]	32.6	40.8	41.6	48.5	52.5
Interest rate (%) [3]	21.6	21.0	25.0	35.0	20.0
USDARS [3]	6.52	8.51	12.95	16.50	18.00

Footnotes: (1) forecast, (2) official data, (3) end period; Budget-deficit ratio includes transfers

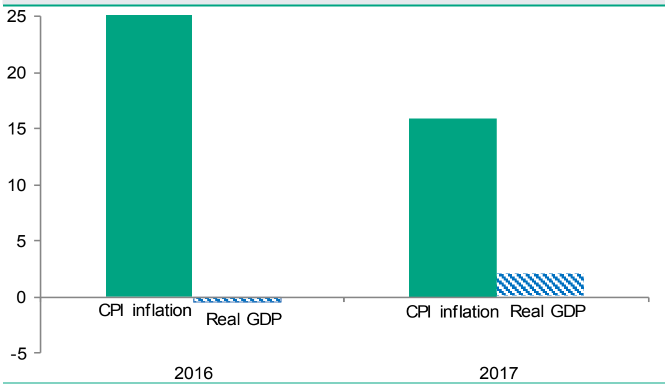
Source: BCRA, Indec, economics ministry, BNP Paribas forecasts

Chart 1: Official fiscal and inflation targets



Source: Finance ministry, BNP Paribas

Chart 2: Growth and inflation forecasts (% y/y)



Source: BNP Paribas

Peru: Bouncing back

Growth to improve in 2016

Booming copper production remains the chief catalyst behind the ongoing rebound in output. We expect GDP growth to improve to 3.7% in 2016 (albeit still below trend) after a strong finish to 2015. April's presidential election result is unlikely to have a big impact on the economy.

Inflation likely to moderate

Inflation has been picking up since 2015 due to surging food prices, partly triggered by the El Niño weather pattern, and the knock-on effects of a weaker PEN. As these shocks pass, we expect inflation to moderate to 3.8% at end 2016, remaining above the central bank's 2% target.

Tighter monetary stance

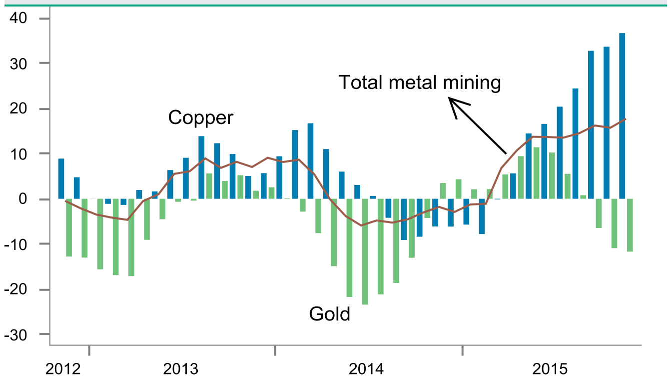
In the face of uncomfortably high consumer-price inflation and drifting inflation expectations, the central bank embarked on a tightening cycle in September, bringing its policy rate to 4.25% in February. We now expect the BCRP to hike an additional 50bp to 4.75% by end 2016.

Where we are different

Our 2016 GDP growth estimate is above the consensus in the central bank's survey, but we remain conservative relative to the central bank and the government. The main factors behind our forecast are an expected ramp-up in copper output and counter-cyclical fiscal spending.

We expect headline inflation to take longer to return toward levels that are more satisfactory to the central bank. Indeed, our 2016-17 projections remain above the consensus, as we see inflation moving back to within the 1-3% tolerance range only in 2018.

Chart 1: Booming copper output (3mma, % y/y)



Source: Macrobond, INEI, BNP Paribas

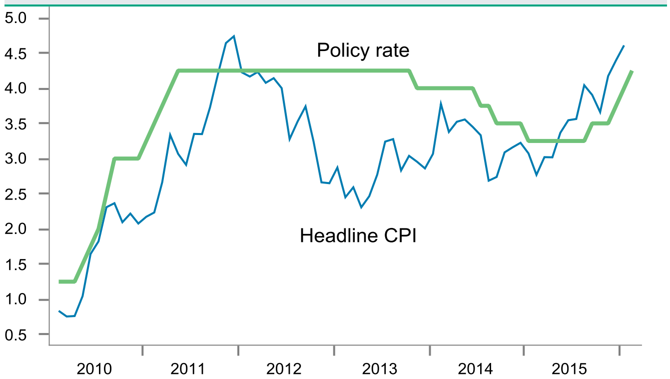
Peru: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Real GDP (% y/y)	5.8	2.4	3.3	3.7	4.3
CPI (% y/y)	2.8	3.2	3.7	4.2	3.4
CPI (% y/y) [2]	2.9	3.2	4.4	3.8	3.3
Trade balance (USD bn)	0.6	-1.3	-2.9	-3.4	-2.8
Current account (USD bn)	-8.5	-8.0	-7.7	-7.9	-7.5
Current account (% of GDP)	-4.2	-4.0	-4.0	-4.2	-3.7
Budget balance (% of GDP)	0.9	-0.5	-2.9	-3.5	-2.4
Primary budget (% of GDP)	1.8	0.5	-1.9	-2.4	-1.2
Gross govt. debt (% of GDP) [2]	19.6	20.1	22.9	24.8	25.5
Interest rate (%) [2]	4.00	3.50	3.75	4.75	4.75
USDPEN [2]	2.80	2.98	3.41	3.55	3.65

Footnotes: (1) forecast, (2) end period

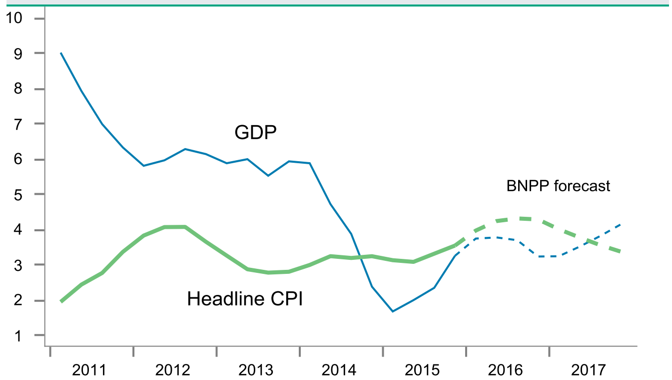
Source: INEI, BCRP, MEF, BNP Paribas

Chart 2: Policy rate vs CPI inflation (% y/y)



Source: Macrobond, INEI, BCRP, BNP Paribas

Chart 3: Growth and inflation (% y/y)



Source: Macrobond, INEI, BNP Paribas forecasts (dotted line)

Venezuela: On the brink

Mired in a depression

Renewed weakness in international crude-oil prices are keeping growth prospects bleak. We project a third consecutive year of contraction as investment and consumption continue to be depressed by import restrictions, an unfavourable business climate and out-of-control inflation.

Hyperinflation prospects

Fiscal monetisation by the central bank and a widespread scarcity of goods are likely to keep consumer prices rocketing: we project inflation will pass the eye-watering 400% y/y mark in 2016. Without meaningful changes to the policy mix, we see the country bound for hyperinflation.

Political stalemate

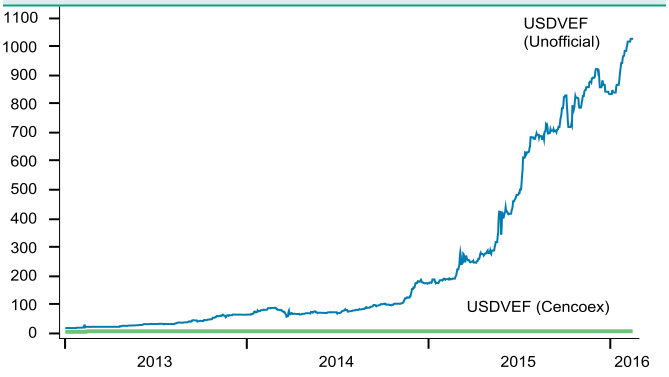
The opposition's parliamentary election victory was followed by stalemate with President Nicolás Maduro. As expected, the untenable policy mix forced Mr Maduro to enact some changes, which included an insufficient devaluation of the currency and higher gasoline prices.

Where we are different

With the economy's sorry state – reflected in our worse-than-consensus GDP and inflation projections – along with mounting crime and popular discontent, we cannot preclude unrest in 2016-17 that could see a change of government and an early end to Mr Maduro's presidency.

The country has depleted its externals assets, leaving one-off financing sources (China) and an unlikely oil-price rebound as the only options. We still expect the government to find a way to meet its external debt obligations, but it is a close call and risk of default in 2016 is significant.

Chart 1: Distortions are affecting the economy



Source: Macrobond Financial AB, BCV, BNP Paribas

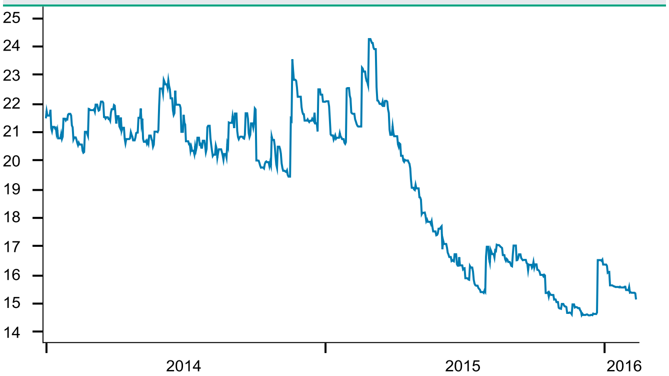
Venezuela: Economic forecasts

	2013	2014	2015 [1]	2016 [1]	2017 [1]
Real GDP (% y/y)	1.3	-4.0	-6.2	-9.7	-4.0
CPI (% y/y)	40.6	62.2	128.6	385.8	366.0
CPI (% y/y) [2]	56.2	68.5	219.6	442.4	302.4
Trade balance (USD bn)	31.6	27.2	2.0	0.0	7.0
Current account (USD bn)	4.6	3.6	-13.0	-15.0	-5.0
Current account (% of GDP)	2.1	1.7	-9.8	-11.2	-3.5
Budget balance (% of GDP)	-15.0	-10.2	-18.0	-12.2	-9.0
Primary budget (% of GDP)	-6.0	-10.0	-17.0	-11.0	-8.2
Gross govt. debt (% of GDP) [2]	55.4	60.0	70.0	77.0	80.0
Interest rate (%) [2]	14.5	14.5	14.5	14.5	14.5
USDVEF [2]	6.3	6.3	6.3	25.0	42.0

Footnotes: (1) forecast, (2) end period; USDVEF forecasts for 2015-16 reflect official devaluation

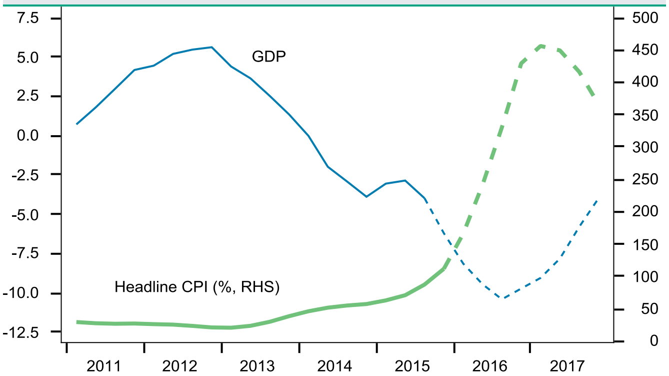
Source: BCV, INE, BNP Paribas.

Chart 2: International reserves are winding down(USD bn)



Source: Macrobond, Central Bank of Venezuela (BCV), BNP Paribas

Chart 3: Growth and inflation (% y/y)



Source: Macrobond, BCV, BNP Paribas forecasts (dotted line)

Oil: The long road to recovery

OPEC stays the course

We see no reason for OPEC to change its supply policy of putting market share ahead of price. It is bearing fruit, thanks to sharp cuts in oil-industry capex. With Iran to add to an oversupplied market, oil is unlikely to rally strongly this year; but it is likely to have reached a floor.

Non-OPEC output to fall

Non-OPEC production should contract this year, but perhaps not enough to offset high OPEC output and reduce global inventories. For the second year in a row, non-OPEC countries are slashing investment, suggesting less supply in three years and medium-term support for prices.

Macro and political risks

So far, 2016 has seen greater cross-asset correlation between oil and equity markets due to China-related jitters. The market's pricing of the likelihood and duration of Fed rate moves, if any, will influence the USD and hence price action. Geopolitics will always play a role, notably when it involves Saudi Arabia and Iran.

Where we are different

Many observers are optimistic that Iran can raise its supply quickly over the next six months, as its officials claim. We remain cautious, as the true state of Iran's oil industry is unclear. Opening its oil sector to foreign participation might also encounter domestic resistance.

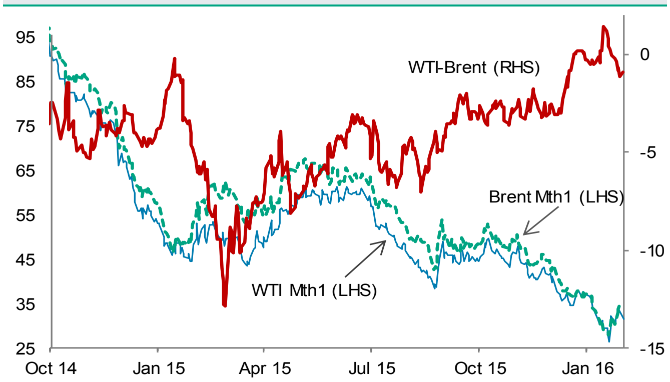
Concerns over the hit to oil prices from weaker growth in demand for oil products in 2016 may have been overdone. Demand for crude oil to fill strategic reserves is likely to remain strong, notably in China, offsetting some of the negative price impact of softer demand for oil products.

Table 1: BNP Paribas crude-oil and oil-product price forecasts, period averages

	Issue date	2015	2016	2017	Q1 2016	Q2 2016	Q3 2016	Q4 2016
NYMEX WTI 1m (USD/bbl)	(15/01/16)	48.76	36	44	32	36	36	40
ICE Brent 1m (USD/bbl)	(15/01/16)	53.61	37	46	32	36	37	41

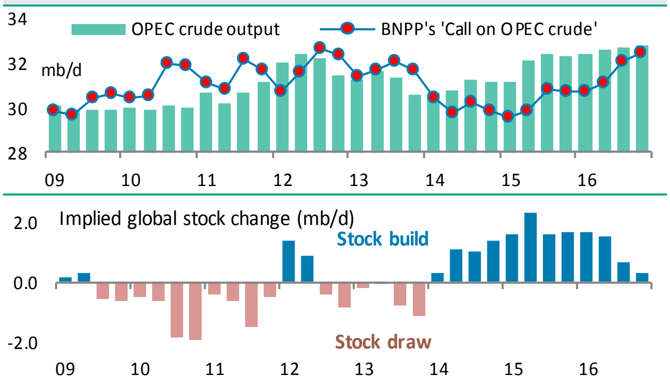
Source: BNP Paribas Commodity Markets Strategy

Chart 1: WTI vs Brent (USD/bbl)



Source: Bloomberg, BNP Paribas

Chart 2: Global implied stock changes



Source: International Energy Agency, BNP Paribas (at 02/02/16)

Climate change: Appraising Paris progress

- The agreement reached at the Paris climate conference, COP21, will have a substantial impact on business in the coming decades.
- Even though no agreement was reached on global carbon prices, internal carbon pricing is likely to play an important role in investment decisions.
- By stimulating the development of climate-related non-financial data, the French Energy Transition Law is likely to encourage the issuance of green bonds.

2°C target implies zero emissions after 2050

The Paris climate conference COP21 delivered a historic agreement on climate change. First, the conference confirmed the objective of keeping the increase in the global average temperature to "well below" 2°C above pre-industrial levels, and added that it would pursue efforts to limit the temperature increase to 1.5°C. The target implies that zero emissions should be achieved in the second half of this century.

USD 100bn pa support to developing world from 2020

Second, the conference confirmed once again that developed countries will provide financial resources to assist developing countries with respect to mitigation and adaptation. The amount of support should reach USD 100bn annually from 2020 onwards and could even be revised upwards. No agreement was reached on how the fund will be financed. The OECD and the Carbon Initiative have estimated that transfers from industrialised countries to developing ones already amounted to about USD 60bn in 2013-14, although the developing countries reject these calculations.

Bottom-up approach and regularly increased efforts

Third, the agreement is a definitive break with the top-down approach adopted in the Kyoto protocol, in which overall objectives were set for industrialised countries. In the new bottom-up approach, all countries formulate their own objectives in a more or less detailed way, the so-called Intended Nationally Determined Contributions (INDCs). The agreement recognises that the INDCs fall well short of achieving the stated 2°C objective and that much greater emission-reduction efforts will be required. Solving this inconsistency has been pushed out to 2018. It should result in countries stepping up their national abatement efforts. The COP21 summit also decided to ratchet up these efforts every five years, starting from 2023.

Positive reaction from businesses

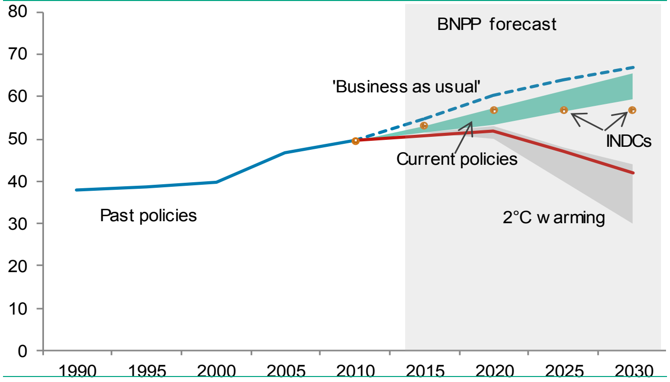
In general, businesses have reacted positively. Even though the Paris agreement lacks detail, it gives a strong signal that should drive action. For some businesses, the agreement has not gone far enough. For example, in the run-up to the conference, some major oil companies had pleaded for the introduction of carbon prices. The final document recognises only that carbon prices can provide strong incentives for reducing emissions. As the new bottom-up approach is not compatible with the adoption of a global carbon price, action in this area depends largely on national governments.

Table 1: Intended nationally determined contributions

Country	CO_2 per capita (t, 2013)	Headline objective: cut in greenhouse gases	Base year	Target year
OECD				
US	16.6	26-28% cut in GHGs	2005	2025
Japan	10.7	26% cut in GHGs	FY2013	FY2030
EU	7.3	40% cut in GHGs	1990	2030
BRICs				
Russia	12.6	25-30% cut in GHGs	1990	2030
China	7.4	CO_2 peak around 2030; 60-65% cut in CO_2/GDP	2005	2030
Brazil	2.6	37% cut in GHGs	2005	2025
India	1.7	20-25% cut in CO_2/GDP	2005	2020

Source: UNFCCC, BNP Paribas

Chart 1: Paris deal and greenhouse-gas emissions



Source: PBL Netherlands Environmental Assessment Agency, BNP Paribas

Internal carbon pricing in investment decisions

In the past decade, carbon-price instruments have increased worldwide and now cover roughly 12% of global greenhouse-gas emissions. This will increase substantially once China also launches its emission trading scheme (ETS), announced for 2017.

At present, the trading schemes are not always effective, with 85% of emissions priced at less than USD 10 per tonne of CO_2. That is also the case for the world's largest scheme, the EU ETS, where prices currently hover around EUR 7. This is insufficient to make a substantial impact.

Nevertheless, enterprises – in particular, energy companies – are already preparing for increases in carbon prices by using an internal carbon-pricing system when reviewing their investment decisions. Moreover, countries such as the UK and France have announced their intention to raise carbon prices substantially for the coming years.

The transition to a low-carbon economy requires substantial investment in infrastructure. Much of the financing will come from the private sector. Private-sector initiatives such as the *Montreal Carbon Pledge* and the *Portfolio Decarbonation Coalition* show that institutional investors are willing to contribute to climate mitigation and energy transition by disclosing their carbon footprints.

French law will strengthen disclosure requirements …

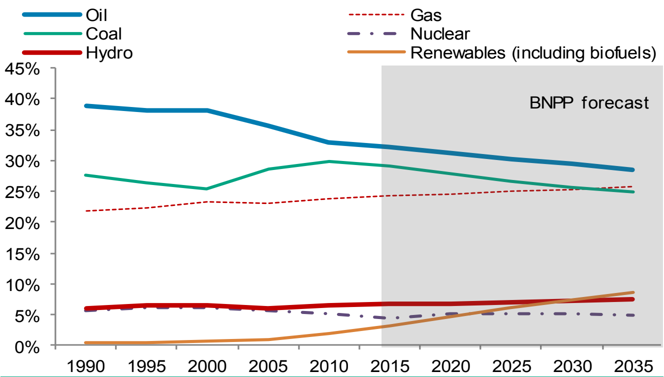
In France, the *Energy Transition Law* adopted in 2015 aims to strengthen the disclosure requirements that listed companies and financial institutions have with respect to risks related to climate change. It converts the institutional investors' voluntary disclosure schemes, such as the Montreal Pledge, into mandatory requirements. Implementation of the law will necessitate the development of new quantitative measures and climate-related non-financial data.

The French law may prompt coordination of global standardisation efforts in this area. It is likely that other countries will follow the French initiative.

… and could help the green bond market

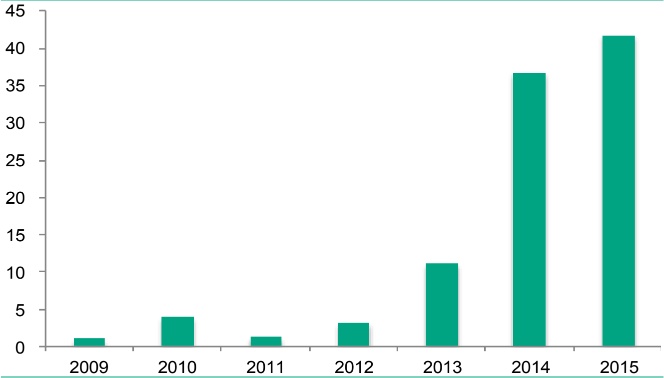
In response to the growing need for low-carbon, climate-resilient infrastructure, financial markets have started to develop specific instruments, such as green bonds. After several years of rapid growth in the issuance of green bonds, progress has slowed, however, for several reasons. By definition, green bonds are linked to green infrastructure investment, which does not increase mechanically from year to year. Moreover, small and medium-sized projects in particular may struggle to fulfil the transparency and credibility assurance requirements for green bonds. Another obstacle is that investors do not yet have fully reliable and comparable information for measuring environmental impacts, although this might be eased by France's implementation of the Energy Transition Law.

Chart 2: Growing share of renewables (% of total)



Source: BP 2016 Energy Outlook, BNP Paribas

Chart 3: Green bonds issuance (USD bn)



Source: Climate Bonds Initiative, BNP Paribas

Global Outlook team

Global	Coverage	Location	Phone
Paul Mortimer-Lee	Global Head of Market Economics, Chief Economist North America	New York	1 212 841 3709
Europe			
Ken Wattret	Eurozone, Switzerland	London	44 20 7595 8657
Luigi Speranza	Eurozone	London	44 20 7595 8322
Dominic Bryant	Eurozone, Germany, UK	London	44 20 7595 8502
Gizem Kara	Eurozone, Greece, Spain	London	44 20 7595 8783
Clemente De Lucia	Eurozone, Italy, France	London	44 20 7595 8842
Colin Bermingham	Ireland, Netherlands, Portugal, Norway, Sweden	London	44 20 7595 8228
Stefan Ubovic	Eurozone	London	44 20 7595 8760
Hélène Baudchon	France	Paris	33 1 58 16 03 63
Arne Maes	Belgium	Brussels	32 3 312 12 10
Raymond van der Putten	Finland, Netherlands	Paris	33 1 4298 5399
Caroline Newhouse	Austria	Paris	33 1 5577 7189
US			
Bricklin Dwyer	US, Canada	New York	1 212 471 7996
Laura Rosner	US	New York	1 212 471 8180
Derek Lindsey	US, Canada	New York	1 212 841 2281
Japan			
Ryutaro Kono	Japan	Tokyo	81 3 6377 1601
Hiroshi Shiraishi	Japan	Tokyo	81 3 6377 1602
Azusa Kato	Japan	Tokyo	81 3 6377 1603
Emerging Markets			
Richard Iley	Head of Emerging Markets Economics, Asia, India	Hong Kong	852 2108 5104
Mole Hau	Asia, Hong Kong, India	Hong Kong	852 2108 5620
Mark Walton	Australia, South Korea	Hong Kong	852 2108 5105
Philip McNicholas	Southeast Asia	Singapore	65 6210 3429
XingDong Chen	China	Beijing	86 10 6535 3327
Jacqueline Rong	China	Beijing	86 10 6535 3363
Michal Dybula	CEE, Russia	Warsaw	48 22 697 2354
Marcin Kujawski	CEE, Romania	Warsaw	48 22 697 2355
Piotr Poplawski	Poland	Warsaw	48 22 566 9567
Serhiy Yahnych	Ukraine	Kiev	380 44 537 50 82
Ievgenii Orudzhev	Ukraine	Kiev	380 44 537 50 89
Eldar Vakhitov	Russia	London	44 207 595 1951
Selim Çakir	Turkey, GCC	Istanbul	90 216 635 2972
Emre Tekmen	Turkey, GCC	Istanbul	90 216 635 2975
Tugba Talinli	Turkey, GCC	Istanbul	90 216 635 2973
Jeffrey Schultz	South Africa	Johannesburg	27 11 0882171
Marcelo Carvalho	Latin America, Brazil	São Paulo	55 11 3841 3418
Gustavo Arruda	Brazil	São Paulo	55 11 3481 3466
Nader Nazmi	Mexico, Colombia	New York	1 212 417 8216
Oscar Munoz	Peru, Venezuela	New York	1 212 471 6599
Florencia Vazquez	Argentina, Chile	Buenos Aires	54 11 4875 4363
Commodities Strategy			
Harry Tchilinguirian	Global Head of Commodity Markets Strategy, Oil	London	44 20 7595 8779
Gareth Lewis-Davies	Oil	London	44 20 7595 1225
William De Vijlder	Group Chief Economist	Paris	33 1 55 77 47 31
Robert McAdie	Global Head of Fixed Income Strategy & Credit Research	London	44 20 7595 8885
Laurence Mutkin	Global Head of G10 Rates Strategy	London	44 20 7595 8639
Steven Saywell	Global Head of FX Strategy	London	44 20 7595 8487

RESEARCH DISCLAIMERS

Some sections of this report have been written by our strategy teams. These sections do not purport to be an exhaustive analysis, and may be subject to conflicts of interest resulting from their interaction with sales and trading which could affect the objectivity of this report. (Please see further important disclosures in the text of this report). These sections are a marketing communication. They are not independent investment research. They have not been prepared in accordance with legal requirements designed to provide the independence of investment research, and are not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices.

BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:
This report is solely prepared for professional clients. It is not intended for retail clients and should not be passed on to any such persons.

UK: This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. 10 Harewood Avenue, London NW1 6AA; tel: +44 20 7595 2000; fax: +44 20 7595 2555- www.bnpparibas.com. Incorporated in France with Limited Liability. Registered Office: 16 boulevard des Italiens, 75009 Paris, France. 662 042 449 RCS Paris. BNP Paribas London Branch is lead supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR). BNP Paribas London Branch is authorised by the ECB, the ACPR and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas London Branch is registered in England and Wales under no. FC13447.

France: This report has been approved for publication in BNP Paribas, incorporated in France with Limited Liability (Registered Office: 16 boulevard des Italiens, 75009 Paris, France, 662 042 449 RCS Paris, www.bnpparibas.com) is authorized and supervised by European Central Bank (ECB) and by Autorité de Contrôle Prudentiel et de Résolution (ACPR) in respect of supervisions for which the competence remains at national level, in terms of Council Regulation n° 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions.

Germany: This report is being distributed in Germany by BNP Paribas S.A. Niederlassung Deutschland, a branch of BNP Paribas S.A. whose head office is in Paris, France. 662 042 449 RCS Paris, www.bnpparibas.com). BNP Paribas Niederlassung Deutschland is authorized and lead supervised by the European Central Bank (ECB) and by Autorité de Contrôle Prudentiel et de Résolution (ACPR) and is subject to limited supervision and regulation by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in respect of supervisions for which the competence remains at national level, in terms of Council Regulation n° 2013/1024 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions as well as Council Directive n° 2013/36/EU of 26 June, 2013 and Section 53b German Banking Act (Kreditwesengesetz - KWG) providing for the principles of shared supervision between the national competent authorities in case of branches and applicable national rules and regulations. BNP Paribas Niederlassung Deutschland is registered with locations at Europa Allee 12, 60327 Frankfurt (commercial register HRB Frankfurt am Main 40950) and Bahnhofstrasse 55, 90429 Nuremberg (commercial register Nuremberg HRB Nürnberg 31129).

Belgium: BNP Paribas Fortis SA/NV is authorized and supervised by European Central Bank (ECB) and by the National Bank of Belgium, boulevard de Berlaimont 14, 1000 Brussels, and is also under the supervision on investor and consumer protection of the Financial Services and Markets Authority (FSMA), rue du congrès 12-14, 1000 Brussels and is authorized as insurance agent under FSMA number 25789 A

Ireland: This report is being distributed in Ireland by BNP Paribas S.A., Dublin Branch. BNP Paribas is incorporated in France as a Société Anonyme and regulated in France by the European Central Bank and by the Autorité de Contrôle Prudentiel et de Résolution.

Netherlands: This report is being distributed in the Netherlands by BNP Paribas Fortis SA/NV, Netherlands Branch, a branch of BNP Paribas SA/NV whose head office is in Brussels, Belgium. BNP Paribas Fortis SA/NV, Netherlands Branch, Herengracht 595, 1017 CE Amsterdam, is authorised and supervised by the European Central Bank (ECB) and the National Bank of Belgium and is also supervised by the Belgian Financial Services and Markets Authority (FSMA) and it is subject to limited regulation by the Netherlands Authority for the Financial Markets (AFM) and the Dutch Central Bank (De Nederlandsche Bank).

Portugal: BNP Paribas – Sucursal em Portugal Avenida 5 de Outubro, 206, 1050-065 Lisboa, Portugal. www.bnpparibas.com. Incorporated in France with Limited Liability. Registered Office: 16 boulevard des Italiens, 75009 Paris, France. 662 042 449 RCS Paris. BNP Paribas – Sucursal em Portugal is lead supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR). BNP Paribas - Sucursal em Portugal is authorized by the ECB, the ACPR and Resolution and it is authorized and subject to limited regulation by Banco de Portugal and Comissão do Mercado de Valores Mobiliários. BNP Paribas - Sucursal em Portugal is registered in C.R.C. of Lisbon under no. NIPC 980000416. VAT Number PT 980 000 416."

Spain: This report is being distributed in Spain by BNP Paribas S.A., S.E., a branch of BNP Paribas S.A. whose head office is in Paris, France (Registered Office: 16 boulevard des Italiens, 75009 Paris, France). BNP Paribas S.A., S.E., C/Ribera de Loira 28, Madrid 28042 is authorised and supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and subject to limited regulation by the Bank of Spain.

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer to US major institutional investors only. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. For the purposes of, and to the extent subject to, §§ 1.71 of the U.S. Commodity Exchange Act, this report is a general solicitation of derivatives business. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Brazil: This report was prepared by Banco BNP Paribas Brasil S.A. or by its subsidiaries, affiliates and controlled companies, together referred to as "BNP Paribas", for information purposes only and do not represent an offer or request for investment or divestment of assets. Banco BNP Paribas Brasil S.A. is a financial institution duly incorporated in Brazil and duly authorized by the Central Bank of Brazil and by the Brazilian Securities Commission to manage investment funds. Notwithstanding the caution to obtain and manage the information herein presented, BNP Paribas shall not be responsible for the accidental publication of incorrect information, nor for investment decisions taken based on the information contained herein, which can be modified without prior notice. Banco BNP Paribas Brasil S.A. shall not be responsible to update or revise any information contained herein. Banco BNP Paribas Brasil S.A. shall not be responsible for any loss caused by the use of any information contained herein.

Israel: BNP Paribas does not hold a licence under the Investment Advice and Marketing Law of Israel, to offer investment advice of any type, including, but not limited to, investment advice relating to any financial products"

South Africa: BNP Paribas Securities South Africa (Pty) Ltd (Registration number 1996/009716/07) is a licensed member of the Johannesburg Stock Exchange and an authorised Financial Services Provider (FSP 29451) in terms of the Financial Advisory and Intermediary Services Act, 37 of 2002. Any view or opinion expressed in this report does not constitute advice and the recipient should obtain their own advice prior to making any decision or taking any action whatsoever based hereon.

Japan: This report is being distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Singapore: BNP Paribas Singapore Branch is regulated in Singapore by the Monetary Authority of Singapore under the Banking Act, the Securities and Futures Act and the Financial Advisers Act. This report may not be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to an accredited investor or other relevant person, or any person under Section 275(1A) of the SFA, pursuant to and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

South Korea: *Branch:* BNP Paribas Seoul Branch is regulated by the Financial Services Commission and Financial Supervisory Service for the conduct of its financial investment business in the Republic of Korea. This report does not constitute an offer to sell to or the solicitation of an offer to buy from any person any financial products where it is unlawful to make the offer or solicitation in South Korea.
Securities: BNP Paribas Securities Korea is registered as a Licensed Financial Investment Business Entity under the FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT and regulated by the Financial Supervisory Service and Financial Services Commission. This report does not constitute an offer to sell to or the solicitation of an offer to buy from any person any financial products where it is unlawful to make the offer or solicitation in South Korea.

Taiwan: BNP Paribas Taipei Branch is registered as a licensed bank under the Banking Act and regulated by the Financial Supervisory Commission, R.O.C. This report is directed only at Taiwanese counterparties who are licensed or who have the capacities to purchase or transact in such products. This report does not constitute an offer to sell to or the solicitation of an offer to buy from any person any financial products where it is unlawful to make the offer or solicitation in Taiwan.

Australia: This material, and any information in related marketing presentations (the Material), is being distributed in Australia by BNP Paribas ABN 23 000 000 117, a branch of BNP Paribas 662 042 449 R.C.S., a licensed bank whose head office is in Paris, France. BNP Paribas is licensed in Australia as a Foreign Approved Deposit-taking Institution by the Australian Prudential Regulation Authority (APRA) and delivers financial services to Wholesale clients under its Australian Financial Services Licence (AFSL) No. 238043 which is regulated by the Australian Securities & Investments Commission (ASIC).The Material is directed to Wholesale clients only and is not intended for Retail clients (as both terms are defined by the Corporations Act 2001, sections 761G and 761GA). The Material is subject to change without notice and BNP Paribas is under no obligation to update the information or correct any inaccuracy that may appear at a later date.

Some or all of the information contained in this report may already have been published on https://globalmarkets.bnpparibas.com